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# 2001 Annual Report

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**ipSCO inc.**



## Note Regarding Forward-Looking Statements

*Certain statements contained in this Annual Report, and in the documents incorporated or deemed to be incorporated by reference herein, constitute forward-looking statements. Any statements that express, or involve discussions as to, expectations, beliefs, plans, objectives, assumptions, future events or performance (often, but not always, indicated by the use of words or phrases such as "will likely result", "are expected to", "will continue to", "anticipates", "believes", "expects", "estimates", "intends", "plans", "projects" and "outlook") are not historical facts and may be forward-looking. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, levels of activity and achievements to differ materially from future results, levels of activity and achievements expressed or implied by such forward-looking statements. Such factors include, among others: general economic conditions, the demand for steel and the specific steel products of the company, anticipated equipment performance in connection with the Mobile Steelworks, the progress of the lawsuit regarding the Mobile Steelworks, the availability of capital, the ability to properly and efficiently staff the company's manufacturing facilities, the level of steel imports into the Canadian and United States markets, economic conditions in steel exporting nations, trade sanction activities including the U.S. 201 action and any remedy that the President might impose in that matter, supply and demand for scrap steel and iron, alloys and other raw materials, supply, demand, and pricing for the electricity and natural gas used by the company, changes in environmental and other regulations and the magnitude of future environmental expenditures, inherent uncertainties in the development and performance of new or modified equipment or technologies, North American interest rates, exchange rates and the level of demand outside of North America for steel and steel products. As a result of the foregoing and other factors, no assurance can be given as to any such future results, levels of activity or achievements and neither the company nor any other person assumes responsibility for the accuracy and completeness of these forward-looking statements. Any forward-looking statements contained herein speak solely as of the date on which such statements are made, and the company undertakes no obligation to update forward-looking statements to reflect events or circumstances after the date on which such statements were made or to reflect the occurrence of unanticipated events.*

IPSCO Inc. had its beginnings in 1956 as a pipe manufacturer using purchased steel coil as a feedstock. The company began production of its own steel in 1960 and quickly evolved into Canada's major western steel company. With the company's Mobile Steelworks commencing startup, IPSCO's steelmaking capacity is 3,500,000 tons per year of which 70 percent is located in the United States and 30 percent is in Canada.

The company is publicly traded, being listed on both the New York and Toronto Stock Exchanges, with the majority of shares widely held.

IPSCO employs directly and through its subsidiary companies, approximately 2,300 people.

IPSCO's long-term goals are to:

- be a leading supplier of wide and thick carbon hot rolled coil and discrete plate in Canada and the United States;
- become a major player in certain special steel markets, especially tubular products and alloy steels, in North America;
- be a leading processor of wide and thick carbon hot rolled coil into cut-to-length product;
- earn an average return on shareholders' equity which is among the leaders in long-term profitability in the carbon steel industry;
- be a reliable employer with excellent working conditions; and
- be a good corporate citizen in the communities in which it operates.

## The Front Cover:

*IPSCO is involved in many innovative energy conservation projects in its operations and also supplies steel to innovative projects for energy production. Pictured here are some of the 399 steel towers, fabricated using IPSCO steel that can be found in the Stateline Wind Energy Center along the Washington-Oregon border. The center is owned and operated by FPL Energy. The towers stand 165 feet tall supporting 77 foot turbine blades and generate enough electricity for more than 60,000 households in the Pacific Northwest.*

## The Annual Meeting:

The shareholders' annual and special meeting will be held on 24 April 2002 at the Turvey Centre, Regina.

# ipSCO inc.



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## Inserts

*Provided as self-contained documents as a service to shareholders*

Management's Discussion & Analysis and  
Audited Financial Statements

40-F (AIF)

Introducing IPSCO

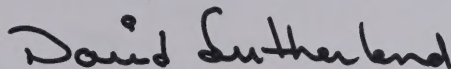
## Letter to the Shareholders

As announced in 2001 and reported on elsewhere in this Annual Report, IPSCO's President Roger Phillips has retired from the company that he has led for 20 years.

Those of you who have met Roger personally and those of you who as shareholders have watched IPSCO grow under his leadership know directly the tremendous energy which Roger has brought to this company.

One of the key things that Roger has excelled in was to bring together a very talented management team and to provide an environment that motivated all of the company's employees to achieve the success that is evident in the record of growth of IPSCO. This management team continues on the path that Roger started and, you can be assured, has the motivation and the ability to continue to grow the company to the benefit of all of its stakeholders.

While Roger has written this Annual Report, it is my duty and privilege to publicly thank Roger for his tremendous contribution to the growth of IPSCO, on behalf of you the shareholders and the many others that have benefited by his leadership.



David Sutherland  
President and Chief Executive Officer

# The Year at a Glance

ALL DOLLAR FIGURES CONTAINED IN THIS DOCUMENT  
ARE IN U.S. DOLLARS UNLESS OTHERWISE STATED

Year ended 31 December		2001	2000	% Change
<b>OPERATIONS</b>	Coil and Plate Tons Produced •	2,238.2	1,904.5	18
	Finished Tons Shipped •	2,435.1	2,233.2	9
	Man-hours per Ton Shipped ■	1.85	1.66	11
<b>EARNINGS</b>	Sales *	\$903.7	\$949.3	(5)
	Net Income *	\$38.9	\$57.7	(33)
	Net Income Available to Common Shareholders *	\$27.4	\$46.8	(42)
<b>SHAREHOLDER INFORMATION</b>	Percent Earned on Common Shareholders' Equity	4%	6%	(33)
	Net Income per Common Share	\$0.67	\$1.15	(42)
	Dividends per Common Share ♦	\$0.425	\$0.50	(15)
	Dividends per Preferred Share ♦	\$1.375	\$1.375	—
<b>FINANCIAL STRENGTH INDICATORS</b>	Working Capital at Year-End *	\$223.3	\$265.4	(16)
	Working Capital Ratio	2.0	2.5	(20)
	Long-Term Debt at Year-End *	\$386.8	\$343.8	13
	Percentage of Long-Term Debt to Total Capitalization	28%	26%	8
	Capital Asset Expenditures for the Year *	\$157.0	\$376.5	(58)
	Number of Common Shares Outstanding at Year-End *	40.8	40.8	—
Average Employment		2,288	1,962	17

• in thousands \* in millions ♦ CDN \$ ■ All IPSCO products



## Annual Report Theme

*Social scientists tell us that it is mankind's ability to make and use tools that distinguishes us from other living beings. While the use of tools initially thrust our quality of life forward, it was the subsequent use of other than manpower to operate our tools that produced a substantial leap forward, first by harnessing animals, then by direct driving factory equipment by waterpower, and subsequently steam. Later the ability to produce electricity through waterpower or steam, and the invention of the internal combustion engine for motive power meant another advancement. Today our quality of life is highly dependent on what we loosely refer to as "energy" – electrical energy largely generated by devices fuelled by fossil fuels, waterpower, nuclear sources, and to some extent "alternate" sources such as wind and solar panels; and motive power largely generated by internal combustion engines fuelled by fossil fuels. Generally speaking, the more developed a society, the more dependent it is on energy. But the use of energy often goes hand in hand with*

*increased pollution. Further the potential depletion of non-renewable fuels could be a problem. Society faces a conundrum – how can we reduce our dependency on non-renewable energy and polluting energy while not drastically impacting our standards of living? IPSCO finds itself involved in most aspects of the energy dilemma. Some of its products are involved in energy production and distribution – pipe used as casing for wells and transmission pipe for oil and natural gas, plate for oil storage tanks, plate for power poles and wind towers, steel for trucks and rail cars for mining and transport of coal. Other products aid in energy conservation, notably high strength steel that permits lighter weight transportation equipment, reducing fuel needs. As a recycler IPSCO aids in energy conservation since it requires only about one third the amount of energy to produce steel from scrap compared to using iron ore. Throughout this report the reader will see photos and text relating to the synergy between IPSCO and energy.*





*On 1 January 2002 I retired as President and Chief Executive Officer after twenty years at the helm of IPSCO. Those twenty years have been characterized by substantial growth in the company in terms of production capacity, geographical presence, product capability, and profitability.*

*But the company has grown in more than the traditional measures. It has drastically improved worker safety, boasts ISO 14001 Environmental Management certification at all operating locations save the startup Mobile Steelworks, and has become a leader in charitable giving. A vibrant research and product development program has put IPSCO on the leading edge in Steckel mill rolling and high strength hot rolled steels.*

*IPSCO's twenty year record is the product of all IPSCO people – from factory workers to senior management to an always constructive board of directors. I thank them all for their contributions and support.*

*Despite IPSCO's accomplishments it is not fully immunized from the negative effects of the steel economic cycle nor to periodic massive surges in unfairly traded steel imports. From a personal point of view, while I regret that my retirement plans coincided with what I hope is the trough year in the current down cycle for North American steel producers, I am confident that the groundwork is in place for increased financial rewards to our shareholders. My successor, David Sutherland, is a seasoned IPSCO executive well qualified to lead the company to new heights.*

*Although presented in third person style the Annual Report, except for the Financial section, has been written by me every year, a practice that I am continuing for this, my last Annual Report.*

*Roger Phillips*

## Highlights

The year 2001 was a difficult year for North American steel. Low prices due to excessive imports, a manufacturing slowdown driven by the incipient recession, and the psychological shock of 11 September combined to drive all but four flat rolled carbon steel producers into financial losses for the period as a whole.

IPSCO was one of those four although it did lose money in the last quarter. For the year as a whole profit was \$38.9 million, down some 33 percent from 2000, including two non-recurring transactions. After preferred share dividends and subordinated note interest the earnings per common share were 67 cents, 42 percent lower than the previous year. Operating profit per ton, given industry circumstances, was a respectable \$19.

Shipments exceeded those of 2000 by nine percent to reach a record 2,435,100 tons including the initial output of the new Mobile Steelworks. The average price per ton dropped 11 percent as the impact of excessive imports continued to depress the market. Tonnage sales to U.S. based customers reached 65 percent of the total as IPSCO's presence as a steel and tubular products manufacturer in America became more and more important.

The production of liquid steel reached 2,414,500 tons, up 19 percent over 2000.

The Mobile Steelworks underwent a normal startup period and had reached fifty percent effective capacity by year-end. Montpelier continued to experience equipment problems during the first three quarters but most were resolved following modifications undertaken



during a 17-day shutdown in October. A lawsuit aimed at recovering IPSCO's costs due to the poor performance was settled out of court for \$49 million. The Regina Steelworks operated at effective full capacity. The average cost of steel produced at Montpelier and Regina fell by 6.5 percent.

IPSCO's safety record was severely impacted when a very unfortunate fatal accident occurred at the Surrey, British Columbia coil processing facility. The frequency of accidents requiring time off from work dropped from 1.2 to 0.4 per one hundred man-years worked while the frequency of all accidents resulting in time off or lessened work responsibilities dropped from 4.7 to 3.8.

The company's dedication to environmental control was underlined by its certification under ISO 14001 at all its fully operating plants. By recycling almost 2.6 million tons of

steel scrap IPSCO consumed much less energy than would have been required to produce steel from iron ore while ridding landfills and vacant lots of unsightly refuse.

The bulk of IPSCO's capital spending of \$157 million went toward the completion of the Mobile Steelworks, including the capitalization of startup costs. Spending in excess of a guaranteed-not-to-exceed contract for the project's construction and equipment erection became the subject of a lawsuit initiated by IPSCO.

IPSCO's technical progress was highlighted by developments in steel quality in the areas of surface finish, the prevention of embrittlement, and higher strength grades. An innovative approach to the measurement of dioxins in electric furnace emissions was developed for use in the study and prevention of these undesirable compounds.



*Senior officers of the company:*

*Standing – L to R: Charles Backman, Charles Sanida, Peter MacPhail, David Sutherland, Raymond Rarey, Anne Parker, Bob Ratliff.*

*Seated – L to R: David Britten, George Valentine, John Tulloch, Joe Russo.*



# Financial

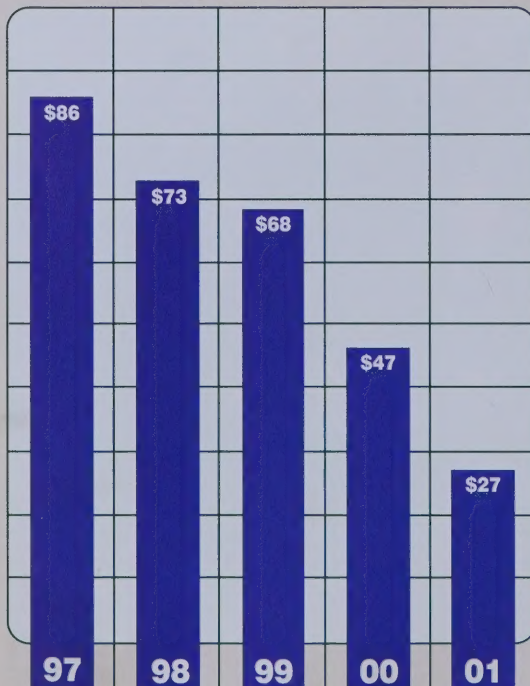
Net income of \$38.9 million dropped 33 percent from the \$57.7 million reported last year even though shipments increased nine percent to 2,435,100 tons. Net income available to common shareholders was \$27.4 million after deducting preferred share dividends and interest on subordinated notes, down 42 percent from 2000 results. However, this total includes two non-recurring transactions which were recorded in 2001. IPSCO settled all claims and counter claims in a lawsuit against the turnkey contractor of the Montpelier Steelworks. Approximately \$39 million of the \$49 million settlement was recorded to income. This was

partially offset by a non-cash charge of \$10 million to adjust the carrying value of idle capital assets held for sale. Net income available to common shareholders would have been \$8.8 million or \$0.22 per common share excluding these one-time adjustments. Operating profit (profit before interest income, interest expense, non-recurring transactions and income taxes) per ton was \$19 for the year.

Basic earnings per common share was \$0.67, down 42 percent from the \$1.15 reported in 2000. Diluted earnings per share dropped from \$0.91 to \$0.66, a decrease of 27 percent.

## Net Income Available to Common Shareholders

(\$ millions)



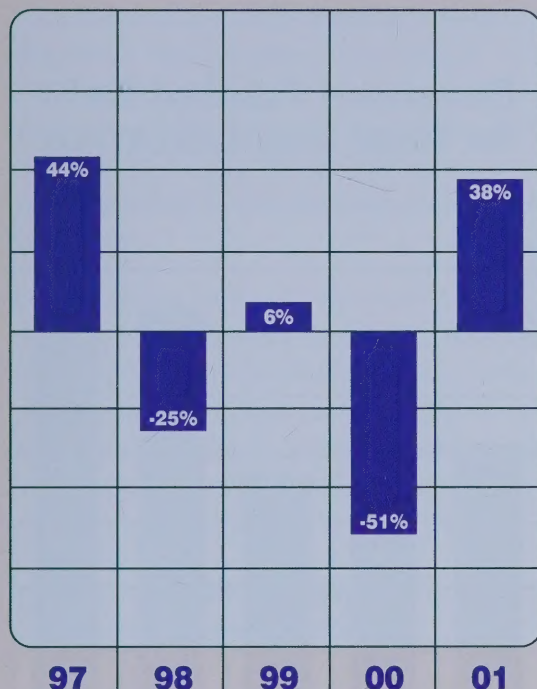
## Basic Earnings Per Common Share\*



\* Reflects 3-for-2 stock split of March 1998



## Market Return on Common Shares



The annualized rate of return on common shareholders' equity for 2001 was four percent compared to six percent in 2000.

On a market basis the return on common shareholders' investment was 38 percent in 2001, a marked improvement compared to the 51 percent drop experienced in 2000. Common share prices increased 36 percent compared to a 52 percent decrease in 2000 while dividends paid per common share were \$0.425 CDN, down 15 percent from the \$0.50 CDN payment in 2000. The dividend rate was dropped in response to lower earnings results.

During 2001 working capital provided by operations was \$57.8 million while non-cash operating working capital decreased by \$50.5 million which resulted in \$108.3 million

of cash being generated from operating activities. The decrease in non-cash operating working capital is a reflection of lower sales levels and tighter working capital management.

IPSCO increased borrowing under its committed \$200 million bank line by a net of \$68 million during the year for a total outstanding balance of \$128 million at 31 December 2001. An additional \$35 million was drawn on a demand facility and \$15 million was raised from sale and leaseback arrangements covering equipment.

A total of \$21.1 million of long-term debt was repaid, and the effect of exchange rate changes on cash was a decrease of \$3.5 million. Interest payments on the junior subordinated notes were \$8.5 million. Common share dividend payments were \$11.2 million, preferred share dividend payments totaled \$5.3 million, and \$0.4 million was raised from common shares issued under the company's share option plan.

Investments in capital assets were \$155.0 million\* with over 80 percent of the spending concentrated on the new steelworks in Alabama. In addition, \$2.0 million was invested in a partnership that operates ferrous and non-ferrous scrap processing facilities in western Canada.

As a result, during 2001 IPSCO's cash and cash equivalents increased by \$19.3 million to \$37.5 million at 31 December.

At 31 December 2001 IPSCO's long-term debt as a percentage of total capitalization increased to 28 percent from 26 percent in 2000 as traditionally computed. However, this

\* \$155.8 million expended on a cash basis.

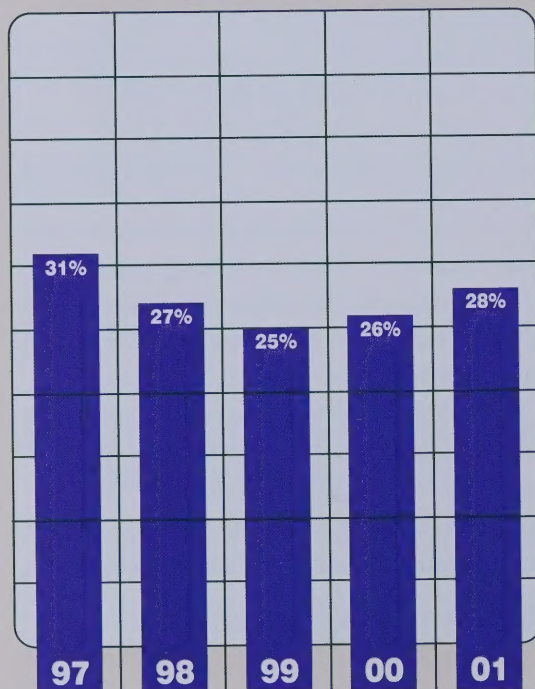


percentage for 2001 increases to 43 using a more conservative definition of debt which includes the subordinated notes (which are classified as equity for Canadian GAAP

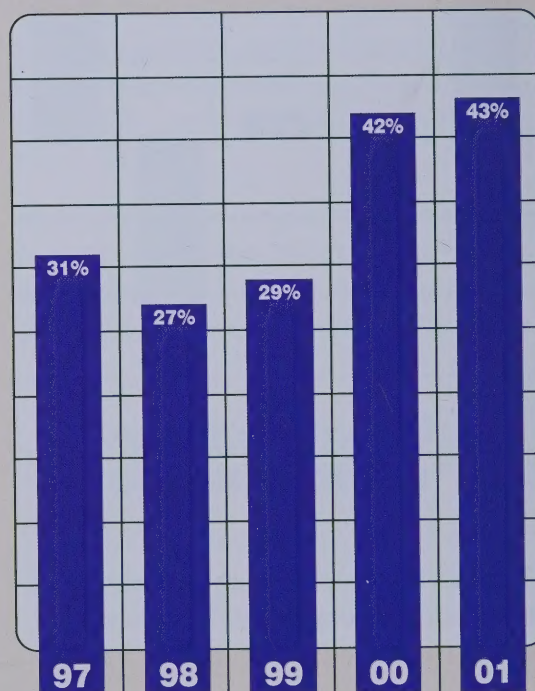
purposes) and proceeds from the major 2000 sale and leaseback. The working capital ratio decreased year over year from 2.5 to 1 to 2.0 to 1 at 31 December 2001.

## Debt as a Percentage of Total Capitalization

(Canadian GAAP)



## Covenant Funded Debt to Total Capitalization



Effective 1 January 1999 IPSCO began reporting its financial results in United States dollars. In accordance with generally accepted accounting principles in Canada, all historical dollars have been translated at the effective exchange rate at 1 January 1999 being \$1.5333 CDN per \$U.S.

For accounting purposes, commissioning of the Mobile, Alabama steel mill was completed on 30 September 2001. Tonnage shipments reported in this Annual Report include the Mobile Steelworks shipments from the beginning of 2001. However, in accordance with generally accepted accounting principles in Canada the financial statements include revenue from 1 October 2001 onward. Sales, net income, and operating profit per ton discussed in this Annual Report are based on this approach.



# Sales

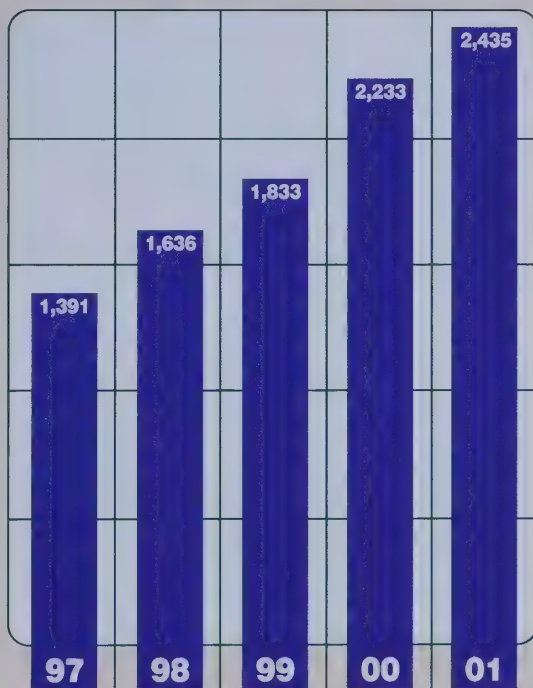
For a fifth consecutive year record tonnage shipments were recorded, amounting to 2,435,100 tons\* or nine percent higher than a year earlier. This achievement took place in a year when a manufacturing recession saw apparent North American steel demand fall by 13 percent.

Despite higher tonnages, revenues at \$931 million, including \$28 million in revenue received during the Mobile Steelworks start-up, were actually 1.9 percent lower than in 2000, reflecting the price erosion that resulted from oversupply conditions largely attributed

to the previous year's import surge. For a full discussion of market conditions and the impact of imports the reader is referred to the **Markets and Imports** section of this report.

The average unit selling price dropped by just under ten percent from \$421 per ton in the prior year to \$380 per ton but in the last quarter dropped to \$366 per ton, partly due to product mix (a higher percentage of steel mill products as compared to further fabricated items) but more generally indicative of severe price competition.

**Tons Shipped**  
(thousands of tons)

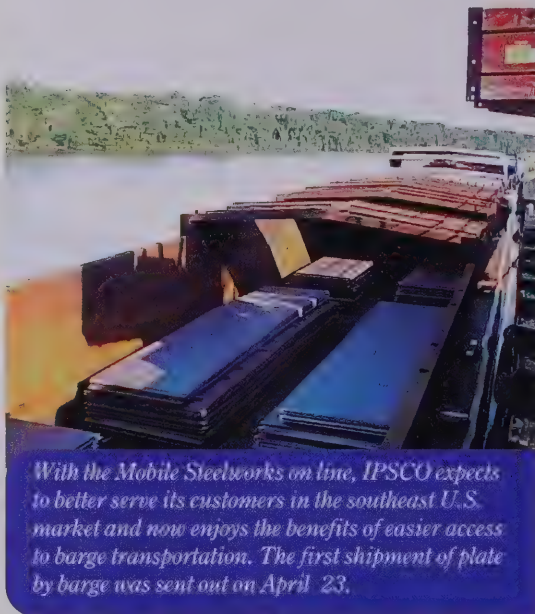


*IPSCO manages its overall business to maximize total dollar profit available to it. This is done by utilizing internal steelmaking capability and opportunities to augment its own steel production with outside steel purchases in order to meet sales opportunities for both its steel mill products and further fabricated items. A drop in the sales of one particular product line may indicate a fall in demand or a decision by IPSCO to deliberately sell less of that product in order to load its facilities with a more profitable mix. Such decisions are taken on the basis of marginal production costs and revenues, freight rates on raw steel movements between its plants, and the cost of delivering products to customers, tempered by longer term strategic requirements. In reading individual product commentaries the shareholder should bear in mind that they reflect the result of such profit maximization activities.*

Shipments to United States customers reached 1,570,300 tons, almost 65 percent of the total, while Canadian based customers accounted for 864,800 tons, about 35 percent. Despite growth in the company's total shipments the Canadian figure was seven percent below that of 2000, indicating that the U.S. market provided the growth in sales.

*\* All sales data in this section is inclusive of steel produced during the startup of the new Mobile Steelworks which began early in the second quarter and ended 30 September 2001. For accounting purposes, all expenses recorded during the commissioning period, net of sales during the period, were capitalized to project costs and therefore the associated sales revenues were not included in the revenue shown on the financial statements.*





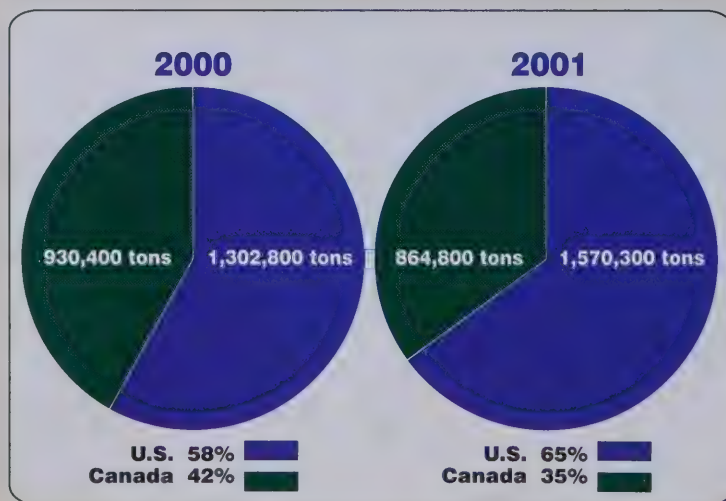
## Steel Mill Products

Shipments of 1,071,300 tons surpassed those of a year earlier by 14 percent, with U.S. destined tonnage increasing by 21 percent while Canadian tons fell by seven percent. In

the United States, unlike 2000 when equipment problems at the Montpelier Steelworks limited IPSCO's ability to service the market, the coming on stream of the new Mobile Steelworks meant that order receipt to delivery times became shorter and therefore more competitive in the second half, resulting in higher sales. IPSCO's presence with a southern based steel mill is expected to become even more of an advantage into the future.

The average unit selling price received by IPSCO for these products (discrete plate and hot rolled coil) dropped almost 15 percent on a year-over-year basis as the result of supply-demand imbalances discussed under **Markets and Imports**. The first quarter of the year saw lower price realizations than the closing quarter of 2000, followed by further erosion in the second quarter, a relatively flat third quarter, followed by an even more significant drop in the fourth. Prior to year end, price increases for both hot rolled coil and plate were announced by various producers to take effect during the first

## Shipments



*Once again, sales to U.S. based customers increased indicating that U.S. markets are providing the opportunities for IPSCO's sales growth.*





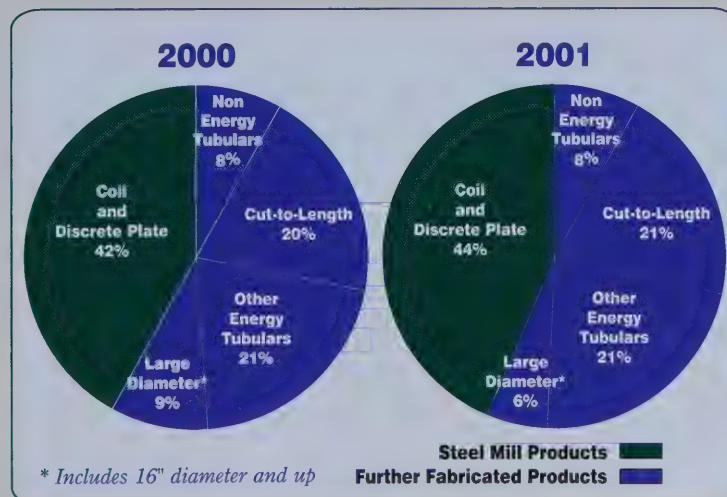
*IPSCO's high strength low alloy steels can be used in refuse trucks to reduce the weight of the truck body and increase fuel efficiency.*

quarter of 2002, suggesting that the fourth quarter may well have seen a bottoming out of pricing.

IPSCO estimates that its market share in the sizes and grades of hot rolled coil and discrete plate that it sells to third parties (including

material further fabricated at its coil processing facilities) reached about four percent of the combined U.S. and Canadian markets in 2001.

## Distribution of Sales by Product (%)



*For the sixth consecutive year total tons shipped increased. Large diameter shipments dropped from nine percent to six percent and coil and discrete plate increased to 44 percent of sales.*



## Further Fabricated Products

Some 56 percent of the company's tonnage shipments in 2001 were in further fabricated form – products that underwent further manufacturing after leaving the steel mills and before being shipped to IPSCO's customers. This number is significant in that IPSCO was able to maintain a desired mix of value added products, despite significant gains in steel mill products shipments.

IPSCO's further fabricated products undergo one of two processes, the flattening and cutting-to-length of hot rolled coil at one of the company's coil processing facilities or the

conversion of coil to tubular products at one of IPSCO's many pipemills. In either case, by adding value to the steel mill product prior to its sale, overall profitability is enhanced. Further, a number of these processes often involve a degree of customization to suit a particular customer. As a result they can be less susceptible to unfair price competition from imported dumped steel which is typically of the mass-produced variety.

In tonnage terms further fabricated product sales rose six percent from 2000 levels to 1,363,800 tons. Shipments of these products to U.S. customers rose 20 percent while those to Canadian customers fell by seven percent.



*IPSCO supplied 62 miles of 24" pipe for the Fort Union Gas Gathering system, in east central Wyoming.*

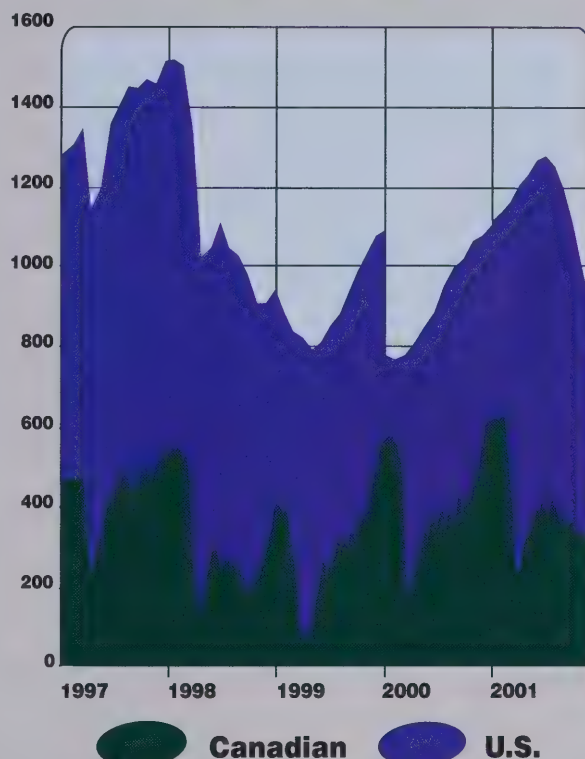


Cut-to-length steel shipments were 489,700 tons of the total, 13 percent higher than a year earlier. Canadian destined shipments were virtually identical to 2000 levels while U.S. shipments rose a hefty 21 percent. IPSCO's coil processing facilities in Houston, St. Paul, and Toronto all make temper leveled cut-to-length products which offer qualities such as superior flatness and surface quality without furnace treatment and which are gaining market share over conventional cut-to-length steel products. The average unit selling price fell nine percent on a year-over-year basis. Although cut-to-length products tend to correlate in absolute price per unit quite closely with the price of hot rolled coil, given their added value characteristics, the downward erosion can be less severe on a percentage basis.

For the second year in a row tubular products tonnage rose modestly, growing two percent from 855,000 tons to 874,100 tons (in 2000 the increase was a nominal one percent over the prior year). Weak sales of large diameter oil and gas transmission pipe and non-energy tubulars in Canada overcame a stronger market for oil country tubulars and small diameter line pipe, resulting in a nine percent drop in shipments to Canadian customers. On the other hand U.S. destined tonnage rose 19 percent with higher sales of oil country and small diameter line pipe as well as non-energy tubulars overcoming an unchanged level of large diameter tonnage.

Total large diameter tonnage fell 29 percent to 145,900 tons from 206,500 tons. There were no major projects requiring oil or gas transmission pipe 16 inches or greater in diameter and the tonnages went to smaller endeavors. On the other hand the tonnage of oil country tubulars and small diameter line

## Oil and Gas Well Rigs Drilling



*Weather patterns in the fourth quarter of the year were less than conducive to drilling in Canada but the average number of rigs drilling in both countries rose on a year-over-year basis.*



*In 2001 IPSCO began supplying its modified L80 thermal casing product together with IPSCO's QB2 premium connection to Imperial Oil. This production field is located in Cold Lake, Alberta.*



pipe rose 12 percent from 469,900 tons to 525,700 as the average number of rigs drilling rose on a year-over-year basis from 916 to 1,155 in the U.S. and from 383 to 392 in Canada. The normal pattern of sales of these products failed to materialize in Canada as weather conditions in the fourth quarter proved to be less than conducive to a high drilling rate (early in 2002 with colder weather assuring frozen ground needed for northern drilling the number of rigs drilling in Canada rose by 132 in one week). Tonnage shipments of non-energy tubulars rose to 202,500 tons from 178,600 tons or 13 percent thanks to higher sales of standard pipe in the

United States while hollow structurals in both countries and standard pipe in Canada decreased. IPSCO estimates that its market share in North America for tubular products within the size and grade ranges that it manufactures was eight percent in 2001.

The average unit selling price of tubulars fell by just under five percent, largely due to substantial price erosion in non-energy tubular products that, by virtue of their being less sophisticated, than higher value added energy tubulars, demonstrate price volatility more or less in line with steel mill products.



# Operations

## Raw Materials

In 2001 a total of \$395 million dollars was spent on major raw materials and consumables for the company's three steelworks, up by 13 percent from the \$351 million expended in the previous year. Included in the figure are steel scrap, pig iron, alloy materials, carbon electrodes, oxygen, refractories, limestone, natural gas, and electricity. The startup of the Mobile Steelworks, with the resultant increase in company-wide steel production, as well as higher unit natural gas prices, overcame the impact of lower unit scrap costs.

During the year IPSCO recycled some 2,596,100 tons of purchased scrap, the principal raw material for its steelmaking, at an average cost per ton that was about ten percent lower than the previous year. IPSCO's 91 percent owned General Scrap partnership and fully owned IPSCO Direct Inc., an Alberta scrap collection company, provided some 17 percent of the company's overall needs. Energy constitutes a significant portion of an electric furnace steelmaker's costs. In 2001 IPSCO's cost per kilowatt hour edged up just slightly more than three percent as the result of escalation clauses in long-term supply contracts, and thus had a negligible impact on the bottom line. Natural gas costs rose by over 50 percent due to higher costs in the earlier part of the year resulting in additional costs of \$10 million. These comparisons exclude Mobile, which was not operating in 2000.

IPSCO's further fabricating operations consumed 389,900 tons of hot rolled coil purchased from third parties, supplementing

the company's own production. This was 27 percent below the 534,200 tons used a year earlier. The principal reasons for the reduction were the coming on line of the new capacity at Mobile and softer markets.

*Operating levels for IPSCO's facilities are established from time to time in order to maximize total company profits rather than individual unit profitability. In the case of the company's three operating steelworks in 2001 (the Mobile Steelworks exited the commissioning stage effective 01 October 2001) there is a substantial overlap in the types and sizes of steel mill products each can produce. Because freight is a substantial cost item, the choice of facility at which a given order is to be produced is often based on the geographic location of the customer. Other products tend to be unique to one of the steelworks, wide coil and plate to Montpelier and Mobile, narrow alloy plate to Regina, for instance. The operating level for a further fabricating operation is determined by whether or not feedstock at a low enough cost is available such that the facility can generate an incremental financial return. Given that IPSCO's third party sales of steel mill products combined with the steel consumption of its further fabricating operations can exceed the capacity of its own steelworks, the operating level of further fabricating operations would be determined by whether or not purchased steel was available at a suitable price. Thus plant operating levels are constantly adjusted to reflect external economic circumstances.*

## Steelmaking

Liquid steel production at 2,414,500 tons exceeded the previous year by 19 percent, reflecting the startup of the new Mobile Steelworks.

Production at the Regina Steelworks reached 1,068,400 liquid tons, just under three percent higher than 2000. Capacity utilization was 94 percent.

The Montpelier Steelworks recorded production of 967,100 tons of liquid steel, just

slightly more than one percent below the year earlier figure. This translated into an effective utilization rate of 70 percent, as prior to October the facility continued to be plagued by equipment malfunctions and breakdowns that were one of the subjects of IPSCO's lawsuit with the general contractor and equipment supplier (see **Financial**). A 17-day shutdown of the steelworks took place in October during which most defects were corrected.

The new Mobile Steelworks produced 379,000 tons of liquid steel after initial production began towards the end of the first quarter. Although later than provided for in the terms of the overall construction and erection contract, the startup occurred 20 months from the initial groundbreaking as compared to the Montpelier experience of 43 months. While the first nine months of operation saw the typical teething pains involved in getting a steel mill of its size up and running the startup has been generally considered a success. By the fourth quarter of the year the facility was operating at 50 percent effective capacity in terms of liquid steel output although the percentage of prime product which resulted was significantly less than will be achieved after the operation is more mature.

The number of man-hours required to produce a ton of finished steel in coil or discrete plate form averaged 0.75 for Montpelier and Regina combined, somewhat higher than the 0.70 reported for 2000, chiefly as the result of the decision to perform certain maintenance functions in-house at Montpelier. Previously these had been undertaken by outside contractors whose manpower statistics are not reported to IPSCO.







*IPSCO'S Mobile Steelworks uses state-of-the-art technology including ladle metallurgy stations, which improve chemical analysis constituency, temperature control and productivity.*

## Tubular Operations

IPSCO pipe mills produced a record 802,600 tons, two percent higher than a year earlier, despite continuing weak markets for large diameter gas transmission pipe and the negative impact of a slowing economy on the demand for non-energy tubulars.

Average capacity utilization at IPSCO's small diameter pipe mills rose to 70 from 68 percent while production tonnage rose seven percent. In the United States average utilization fell slightly from 68 to 67 percent but improved efficiencies at the Blytheville, Arkansas pipeworks, and the Camanche, Iowa pipeworks resulted in an overall increase in tonnage output of ten percent.

The mid-size electric resistance weld mill in Regina saw a mere 30 percent utilization, even lower than the 49 percent recorded a year earlier, the result of a dearth of pipeline projects in the 16 to 24 inch diameter range. Utilization of the large diameter spiral mills in Regina grew to 57 from 34 percent. However, the increase in utilization was disproportionately higher than the increase in output of only 14 percent, due to a less favorable product mix.

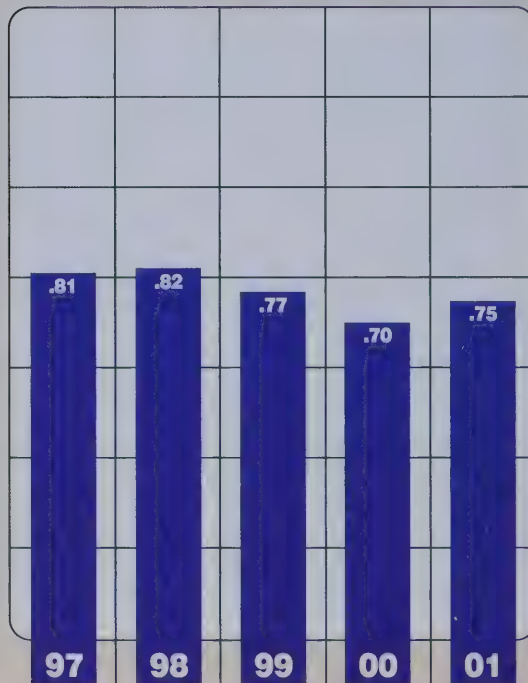
The man-hours required to convert finished steel to one ton of finished pipe averaged 2.52. This compares to 2.43 man-hours in 2000 and reflects a more labor intensive product mix rather than a decrease in efficiency.



*There were fewer large diameter pipeline projects in 2001 but production of the Guardian Pipeline order was undertaken at the Regina spiral pipemill.*

## Man Hours

(man hours per ton of mill edge coil or plate)





## Coil Processing

A total of 545,800 tons were handled by IPSCO's coil processing facilities, higher than 2000 by 11 percent when the amount was 490,400 tons. It is typical in periods of falling steel demand for customers to insist on higher and higher quality. IPSCO's coil processing facilities include three temper leveling mills permitting superior thickness and flatness control, quality features prized by end-users.



*Based out of Alberta, Corlac uses IPSCO plate processed in Regina to fabricate oil field storage tanks and pressure vessels.*

# Research and New Product Development

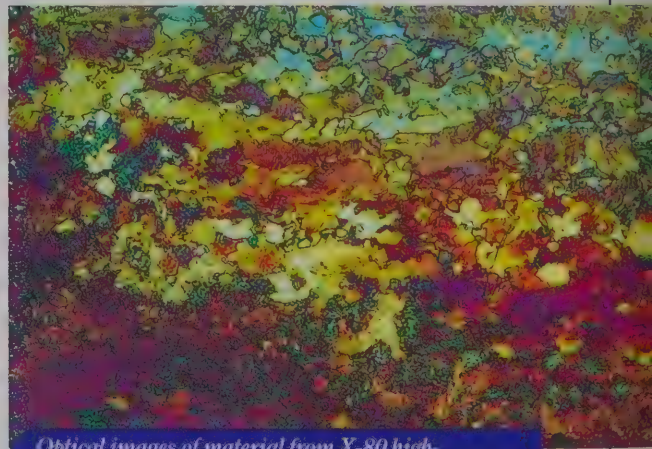
In 2001 IPSCO continued its approach of providing strong leadership in creative metallurgical and operational development at its production facilities. As well, the traditional support for the company's activities through IPSCO's central research facility in Regina was expanded to take into account the coming on line of the new Mobile Steelworks. Enhanced involvement in collaborative research and development was undertaken with a range of outside scientific and engineering companies, and with various Canadian and U.S. universities. In response to customers' continued demand for products engineered to specific requirements, work on the quality and product aspects critical to the performance of IPSCO material in sophisticated applications was initiated. Externally IPSCO continued its involvement in curriculum development at schools and universities and its support of "co-op" programs that provide valuable pre-graduation training to prospective employees.

Spending classified as research and development amounted to \$1.3 million in 2001. This number understates the company's total effort as much development work takes place as part of production runs and is not easily captured separately by an accounting system.

Even very small amounts of nitrogen (measured in parts per million) result in unwanted brittleness in finished steel. Consequently more and more end-users are requiring lower and lower nitrogen

concentrations. The nature of electric furnace steelmaking is such that contact with the air, which contains 80 percent nitrogen, can easily result in unwanted pickup of excessive nitrogen. By allowing a layer of so-called slag to form on the surface of the liquid steel in an electric furnace a degree of insulation from the atmosphere is possible. Applying fundamental metallurgical principles permitted IPSCO researchers to develop improved slag practices. This resulted in lower nitrogen levels, which allowed the company to meet heretofore difficult to achieve customer needs.

In 2001 IPSCO channeled a substantial amount of research and development effort at resolving issues related to surface imperfections in both plate and coiled products. A prime source of these imperfections is due to the rolling into the surface of the steel, small flakes of "scale"



*Optical images of material from X-80 high-strength line pipe material are examined in IPSCO's Research and Development Department to discern the microstructure of the material.*



(oxidized iron that forms on the steel surface during manufacture when red hot steel is exposed to the atmosphere). This can happen in two ways. The first is directly, when such flakes remain on the steel surface after undergoing a treatment using high-pressure water sprays (referred to as "de-scaling"). The second is indirectly when in the case of Steckel mill rolling, such as that used by IPSCO, scale flakes are picked up by the Steckel mill drums, and subsequently transferred back to the steel surface, resulting in rolled in imperfections referred to as "pits". An innovative way of cleaning the Steckel mill drums was developed by the company during the year, which in turn has dramatically improved the appearance of rolled products. In addition enhanced spray technology has been designed aimed at rendering *de minimus* the flakes of scale remaining on the surface of the steel prior to the rolling process. This innovation will be implemented in all IPSCO's steel mills.

Another major rolling project addressed customer requirements for control rolled product profiles. A profile simulation software package, with user-friendly interfaces, has been developed for IPSCO's Steckel mills to allow operators to better control thickness across the width of the rolled product. These models use a set of input data (steel and mill variables) to predict the final profile of the rolled product. By changing various steel and mill variables, the models show the operators how profile can be controlled. This work has already shown positive results and is continuing in 2002.

IPSCO has developed processes utilizing existing equipment to enhance the precipitation of extremely small particles in order to further enhance the strength of high

strength steels. This novel thermo-mechanical processing technology will allow IPSCO to produce steels with superior strength and enhanced toughness in the near future. One use of this technology will be in the development of high strength steels for Arctic applications.

In 2001 IPSCO continued to exploit the use of accelerated cooling of finished rolled plate as it exits the rolling mill, to enhance the product's mechanical characteristics. In anticipation of northern pipeline projects, IPSCO applied the experience gained from previous work in the development of heavy gauge X80 steel for use in pipe, the apparently preferred material of choice by designers of various projects being proposed for the pipeline options currently under discussion. This work has enabled the production of heavy gauge X80 plate (0.75" and 1.0") and X70 plate (up to 1.43") with good toughness values, as well as 0.75" X80 in coil form.

Dioxins and furans are organic chemicals comprising carbon, oxygen, hydrogen, and chlorine, which form when their constituents are brought together at certain elevated temperatures. One member of this chemical family of over 200 known compounds has been shown to cause cancer in humans. Major sources in Canada of these emissions are rural landfill fires, forest fires, and municipal waste incinerators (contributing an estimated 63 percent of total emissions). Other sources are hospital incinerators (which for sanitary reasons operate at elevated temperatures) and the burning of municipal garbage.

Relatively far down the list are emissions from electric steelmaking furnaces. For instance IPSCO estimates that in a typical year its Regina Steelworks exhausts only



*McGill University's Dr. Stephen Yue offers tutorials to co-op students during his sabbatical at IPSCO.*

about 1.25 grams to the atmosphere. Despite the relative insignificance of electric furnace steel sources of dioxin Canada's federal government is proposing to restrict these emissions to levels where attainment is not currently economically feasible. An IPSCO research project in 2001 has been aimed at improving the ability to measure such emissions and to develop cost effective ways of controlling them.

The first challenge concerns determining exact levels of dioxin emissions on a real time basis. Currently "one off" tests are run over a period of a few hours of furnace operation, the results of which are only

available several months later. Most Canadian electric furnace operations have only undergone one, or at the most two, such tests meaning the results are statistically invalid. Government proposals to establish permitted emission levels using this paucity of information make no sense. Further, the use of such costly and highly infrequent tests to determine compliance is unsound. Months after the tests are conducted, a "good" result will not mean that the furnaces are normally operated in compliance. Similarly, a "bad" result may mean only that the testing took place during abnormal operating conditions. Thus one prong of IPSCO's research is



designed to develop a reliable continuous monitoring method for dioxins, something not yet done anywhere in the world. Initial results are promising but the work is not yet complete.

A second prong of IPSCO's work has focused on understanding potential dioxin and dioxin precursor sources, how they are emitted, how combustion in the furnaces affects dioxin emissions, and if an exhaust control system could be developed to destroy or prevent the formation of the dioxins. Successful completion of the work permitting online continuous dioxin measurement will greatly speed up this research.

As a result of collaborative association with universities, Dr. Stephen Yue of McGill University spent a 5-month sabbatical at IPSCO during 2001 working with research and operational groups in Regina, Montpelier, and Mobile. The time spent helped strengthen IPSCO's ties with McGill University and also provided an insight into operational aspects of a dynamic and profitable steelmaker for Professor Yue, which will be beneficial to his students. Professor Yue presented a 6-part comprehensive introductory metallurgy course to IPSCO operational and sales personnel in Regina, Montpelier and Mobile. He also worked with IPSCO's technical staff to optimize high strength line pipe rolling schedules and to analyze and control residual stresses in plate. The latter included demonstrating how a micro-structural model could be best utilized as a research and development tool.

IPSCO has always maintained an active role in championing and supporting the education of well-trained university graduates who would then be able to apply their education to

a strong, innovative steel industry. The strategy of employing co-op students in IPSCO's research center throughout the year in order to increase future graduating engineers' awareness and understanding of the complexity of the steel industry continues. The year 2001 saw a total of 12 co-op students from four Canadian Universities spending a minimum 4-month term at its research facility in Regina. There were also five co-op students placed at other IPSCO manufacturing facilities. IPSCO continued its efforts to support the diminishing number of ferrous metallurgy professors and graduates in universities by offering or supporting research grants. In 2001, the company sustained this effort by providing funding of \$230,000.

Collaborative research efforts with the University of Alberta resulted in publication of seven papers and two theses. Last year IPSCO reported on the development of engineered materials with strengths of 90,000 to 100,000 pounds per square inch. It is noteworthy that the above research effort showed that IPSCO XF100 plate (100,000 pound per square inch minimum strength) could be successfully welded without preheating. This finding has helped IPSCO penetrate high strength plate applications previously served by more costly furnace treated steels.

To further show its commitment to improving the talent pool of educators and graduates, IPSCO has joined McMaster University Steel Research Center (SRC). The SRC is committed to giving graduates a better awareness of the steel industry and also provides a forum for carrying out fundamental research.

# Markets and Imports

Despite a clear slowdown in worldwide steel usage, global production levels in 2001 seemed to defy basic economic principles. Indeed, although estimated world production dropped a meager 0.9 percent from 933.9 to 925.8 million short tons, non-North American production actually rose by 9.0 million tons. With world overcapacity estimated by some sources to be as much as 200 million tons per annum the extremely high production continued to put pressure on steel prices generally, exacerbating the dismal situation that prevailed at the beginning of the year.

*IPSCO views the United States and Canada as its North American home market and exports very little to other jurisdictions. Unless specifically otherwise noted, references to "North America" exclude Mexico. Because of tardiness and in some cases inadequate detail in published statistics the numbers quoted for consumption are often only rough estimates and should be construed as broad indicators rather than precise numbers.*

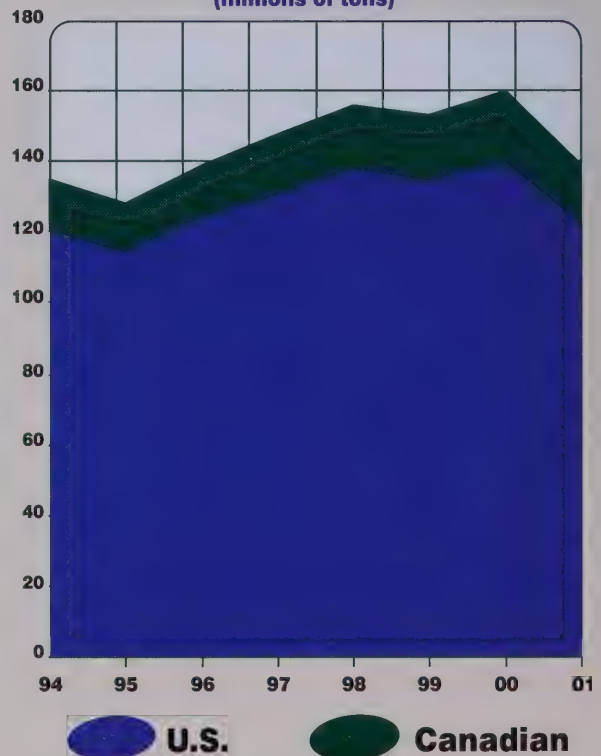
*The annual consumption of steel in Canada and the United States is quoted as "apparent demand", the number being calculated as the total tonnage shipped to domestic customers by domestic steel producers plus the tonnage of imports. Imports often come in surges and may remain unsold and on the receiving docks long after they have been recorded as part of the apparent consumption. Thus changes in apparent demand from year to year are only rough estimates of the variation in true demand.*

Apparent demand for steel in North America (U.S. and Canada only) dropped to 139.3 from 160.1 million tons, or by 13 percent. This figure is made up of domestic producer shipments to end-users and distributors as well as imports. Because steel is often imported "on spec", unsold inventory accumulates at the ports, but because it is included in these numbers, can serve to

inflate them. On the other hand, sales to end-users from import accumulations of prior years go uncounted and in some circumstances apparent consumption is thus lower than actual consumption. Further, inventory adjustments by the distributors can also distort the numbers. In 2001 it is thought that actual consumption by end-users was higher than the apparent consumption numbers, reflecting both a draw-down of unsold imports and distributor inventories.

## Domestic Apparent Steel Consumption

(millions of tons)



*A drop in apparent steel consumption in 2001 of 13 percent includes the effect of inventory reductions throughout the supply chain.*



Shipments by North American domestic producers fell to 103.8 from 113.4 million tons, a drop of 8.5 percent. Imports (excluding intra-regional ones) fell as well, going from 37.6 to 27.3 million tons, the latter figure amounting to 20 percent of the combined American and Canadian apparent demand. Despite the drop in imports the cumulative effect of prior inventory draw-downs and current imports was sufficient to continue to put pressure on domestic producers. For instance, in the U.S. the industry capacity utilization dropped to 79 percent from 86 percent a year earlier.

To get a better picture of how demand and imports affected IPSCO's results it is instructive to examine the information for the steel products that IPSCO sells.

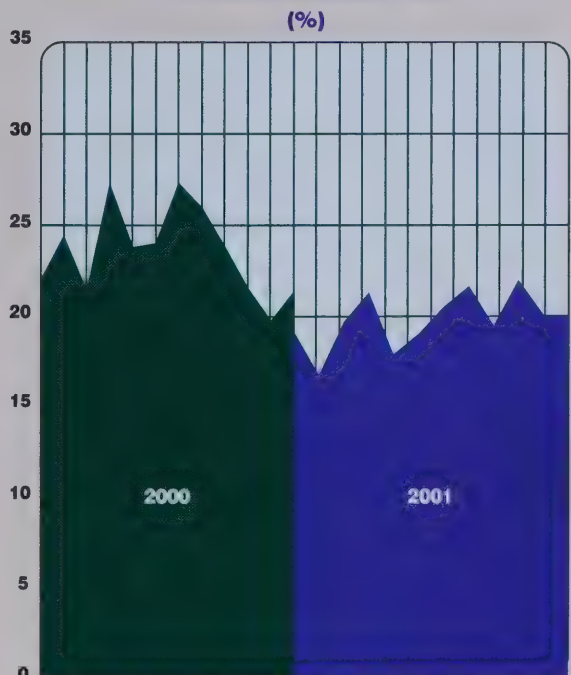
The apparent consumption of discrete plate in the U.S. and Canada was 7.5 million tons, only slightly below the year 2000 figure of 7.8 million. Imports from outside North America were 840,000 tons, off from 944,000 tons the year before. This meant that shipments by domestic producers dropped to 6.6 from 6.8 million tons. Although actual fourth quarter figures were not available as of this report's preparation it is disturbing that plate imports seem to have been increasing as the year progressed. This upward trend took place while total demand seemed to be falling.

For hot rolled coil and sheet, apparent consumption fell drastically from 38.7 to 32.3 million tons or by 15 percent. Imports from outside North America were down from 8.4 to 3.1 million tons, meaning domestic producers saw their sales fall to 29.2 from 30.2 million tons.

The apparent consumption of tubulars was virtually unchanged, rising slightly to 17.9 from 17.6 million tons but imports also rose, reaching 3.7 million tons, up from 3.4 million, meaning that domestic shipments stayed unchanged at 14.2 million tons. Tubular products consumed in energy applications such as well casing and oil and gas distribution lines rose to 7.8 from 6.6 million tons with imports reaching 2.1 million, up from 1.7 million tons. Non-energy tubulars apparent consumption dropped to 10 million tons, down from 11 million, with imports falling only slightly to 1.5 from 1.7 million tons.

These results took place during a period characterized by intense trade actions undertaken by the domestic industries in both

## Monthly Import Penetration of Steel Markets



*Although demand for steel in North America dropped in 2001 import penetration increased during the year.*

the U.S. and Canada. The most important of these from IPSCO's perspective was a so-called "201" trade case in the United States. Under World Trade Organization rules a country whose domestic industry is injured by substantial surges of imports, unfairly traded or not, may legally impose tariffs or quotas designed to give the injured domestic producers a degree of protection that will permit them to recover financially. IPSCO joined with virtually the entire domestic industry in the U.S. to encourage the administration to initiate the appropriate proceedings for such a safeguard action. After extensive testimony from both proponents and opponents the U.S. International Trade Commission first ruled that injury sufficient to warrant safeguards had indeed been caused by imports in the case of flat rolled steel, including plate, and all tubulars except oil and gas well casing and tubing, as well as a number of other products. After further hearings the Commissioners recommended remedies including quotas and tariffs of varying severity. Under American law it is now up to the President to decide just what remedies, if any, to impose. The decision, expected in late February or early March 2002, will mark a crucial turning point for the domestic American steel industry and the fate of its many workers.

For the uninitiated the steel demand changes from 2001 to 2002, and the reduction in imports accompanying them, do not seem to warrant the imposition of trade restraining remedies. There are two reasons why the straight year-to-year numbers are misleading. First, surges in imports do not respect an annual calendar – the periods of time examined by the International Trade Commission covered quarter by quarter



*IPSCO Vice President Anne Parker presents a petition signed by hundreds of the company's U.S. employees to show support for Congressman Phil English's (middle) fight against unfairly priced imports. Congressman English was conferring with Tony Valeri, M.P., his Canadian counterpart, as Chair of the Steel Caucus.*

information in more than one year. Second, and most important, import surges of steel can be likened to slash and burn warfare. Huge surges result in excess stocks sitting on the docks that can only be sold at massive discounts. Steel users become bloated with steel supplies and cut back their orders from domestic suppliers to miniscule levels. While such a buyers' "strike" does not last a full year it is very debilitating to an individual steel company. When prices get really low and demand is reduced to a trickle the imports dry up considerably (as they did in 2001) leaving a financially crippled industry to compete for the remaining demand at reduced prices.

Further, trading companies seem to deliberately hold back on imports after trade cases have commenced but before the rulings are known. Whatever the cause of such import slowdowns importers try to take advantage of this phenomenon and are arguing, as this report goes to press, that they could not have caused the problem because imports have dropped considerably.

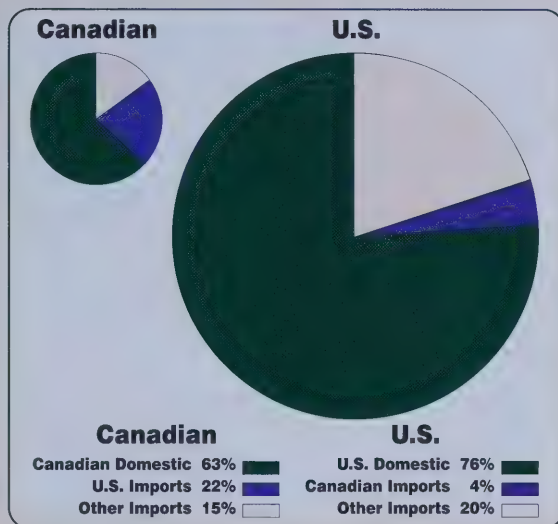


This ignores the genesis of the problem. Safeguards are necessary to prevent the resurgence that typically occurs as soon as the market starts to improve. Readers may watch IPSCO's website, [www.ipsco.com](http://www.ipsco.com), for news of the President's decision.

While the 201 case attracted the most coverage in the trade press there were several other trade proceedings alleging dumping or illegal subsidies, as well as "sunset" reviews of five-year old findings. In particular plate and hot rolled cases against several countries found that there was dumping and in many cases illegally subsidized imports.

On the Canadian side of the border the domestic industry won an important anti-dumping and countervail case against nine countries on hot rolled steel.

## 2001 Steel Markets



*The U.S. market is about seven and a half times larger than the Canadian market. Import penetration into the U.S. market was about 24% while import penetration into the Canadian market was about 37%.*

# Investments in New and Upgraded Facilities

Capital spending at \$157.0 million was down substantially from 2000 and was primarily devoted to the completion of the new Mobile Steelworks.

Of \$129.1 million in capital outlays for the new mill a substantial portion went to liquidating holdbacks on the various equipment supply contracts and for capitalized startup costs. Under Canadian generally accepted accounting principles losses during a six-month startup period and interest during the period are treated as capital items.

The Mobile Steelworks first produced liquid steel in the initial quarter of the year, within the time frame announced at the commencement of the project, but the formal "project completion" date was three months later than the time specified in the construction and erection contract which also included a guaranteed-not-to-exceed cost provision. The contractual amount was exceeded and damages of over \$60 million are being sought by IPSCO in a court action commenced in September.

Since its startup in 1997 the Montpelier Steelworks has required substantial modifications due to equipment unreliability and the plant's failure to meet the contracted output. The year saw what management hopes to have been the last of the major

expenditures needed to rectify these problems. One set of modifications was so extensive as to require a protracted shutdown of the plant for 17 days. Capital spending for the year at Montpelier was \$13.1 million while additional sums, treated as expense for accounting purposes, were also required. The non-performance of Montpelier's equipment and general contractor was the subject of a civil lawsuit that was settled out of court in mid-year for \$49 million (see **Financial**).

Spending in other areas was kept to minimum levels consistent with the poor state of the steel market in North America and resultant reduced cash generation. Indeed, the end of the Mobile Steelworks startup period late in the third quarter meant that total capital spending for the company as a whole fell to just \$9.6 million in the fourth quarter.

A \$2.7 million upgrade to the company's Regina 24 inch pipemill, scheduled for completion in mid-2001 was delayed when a piece of key equipment fell from a delivery truck when being shipped to IPSCO. The cost of replacing the item will be covered by insurance but the final work on the project will not conclude until later in 2002 so as not to interfere with sales commitments.



# IPSCO People

IPSCO is saddened to report that during the year a fatal injury occurred at the Surrey, British Columbia coil processing facility. IPSCO extends its sympathies to the family, friends, and co-workers of Tak Morita who died as the result of injuries in an accident. A full report of the accident investigation by the authorities is still pending.

The fatality occurred in a year that otherwise demonstrated substantial improvement in the company's safety record. The frequency of lost time accidents fell to 0.4 accidents per 100 man-years worked, substantially below the 1.2 figure registered for 2000. If accidents requiring that an employee be assigned to alternate work are added, the figure for lost workday accidents becomes 3.8 as compared to 4.7 a year earlier. Despite the fact that unforeseen hazards and employee lapses make a record of absolutely no accidents a seeming impossibility it is nevertheless a goal towards which IPSCO's safety programs are striving.

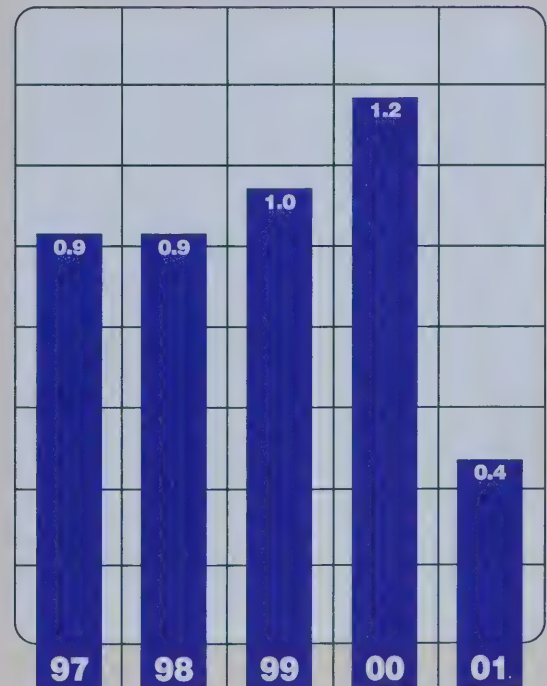
During the year IPSCO employed 2,288 employees on average, ending the year with 2,293 people on the active payroll. These figures compare with 1,962 and 2,073 respectively for the year 2000. The chief reason for the increase was the coming on line of the new Mobile Steelworks. At the end of the year 144 persons were on layoff, primarily at the Red Deer and Regina pipemills, as the result of some business weakness.

The company extends its best wishes to the 24 IPSCO people who retired during the year.

Seven employees died during the year for other than work related reasons. IPSCO people everywhere express sympathy to the families and friends of Keith Nolen and Terry Fomong of Montpelier, Greg Collins and William Coish of Red Deer, Arlin Austin-Budus and Michael Stockman of Regina, and Chet Miller from Lisle (see also comments under **Directors and Officers**).

During the year Morley Johnson and Russel Krywulak of Regina celebrated forty years of service with IPSCO. Fifty-three company employees reached the twenty-five year mark, swelling to 252 persons the active ranks of the IPSCO Quarter Century Club,

**Frequency of  
Lost Time Accidents**  
(per 100 man years worked)





*The safety of its employees is of the utmost importance to IPSCO. An internationally known speaker was brought in to the Regina Works to keep employees motivated and to remind them that safety should be incorporated into every aspect of our lives.*

which also counts 220 retirees with over 25 years of active service.

In 2001 a total of 183 courses were taken under IPSCO's life-long learning support program. The program provides tuition cost assistance to employees who successfully devote their own time to further their education. Ninety-six of the courses were undertaken by hourly paid individuals.

Job related training constitutes another important part of IPSCO's overall emphasis on self-improvement. The year saw such expenditures totaling over \$500,000.

Since the 1980's IPSCO has had in place several profit sharing plans. The concept is simple: allow employees to share part of the company's good fortune during profitable years (these plans are in addition to any incentive or gain sharing of a local nature and

are separate from management incentive bonus plans related to profitability). Needless to say, when IPSCO's profits shrink, so does the profit sharing amount received by employees. Thus for 2001 payments to employees under these profit sharing plans, in either company shares or cash, fell to \$1.3 million from \$3.2 million a year earlier.

The company plan with the widest participation is the ESPP – Employees Sharing Profits Plan. All employees save those belonging to the United Steelworkers of America in Canada and unionized employees at St. Paul are eligible to belong to the ESPP. Under the plan any employee voluntarily contributing \$500 in 2001 to a share purchase plan received approximately 53 IPSCO shares each worth approximately \$23 CDN over and above the 26 shares purchased with their \$500 investment. The number of shares



awarded each year is based on the company's profitability and the prevailing share price. An employee participating in the plan since its inception would have invested \$8,500 CDN and would now own a total of 2,612 shares worth approximately \$39,180 or \$62,557 CDN.

United Steelworker members belong to a separate plan under which all those who worked 520 hours in each quarter received a total of 53 shares worth approximately \$980 CDN at year-end.

At year-end, under the two plans, trustees held 853,879 shares on behalf of employees worth approximately \$12.8 million.

## Directors and Officers

William (Bill) Woodward, an IPSCO director since 1989, reached the retirement age for directors and consequently did not stand for re-election at the annual meeting of shareholders. His valued input will be missed.

Gordon Thiessen, who served as Governor of the Bank of Canada, Canada's central bank, from February 1994 to January 2001 was appointed a director of the company on 1 October. Born in South Porcupine, Ontario, Thiessen grew up in a number of different towns in Saskatchewan. Thiessen graduated from the University of Saskatchewan with an Honours B.A. in economics and an M.A. and earned a Ph.D. in Economics from the London School of Economics. Starting his career at the Bank of Canada in 1963, Thiessen worked in various departments, including a two-year term in the mid-70s as a visiting economist at the Reserve Bank of Australia. He will be a welcome addition to the IPSCO Board.

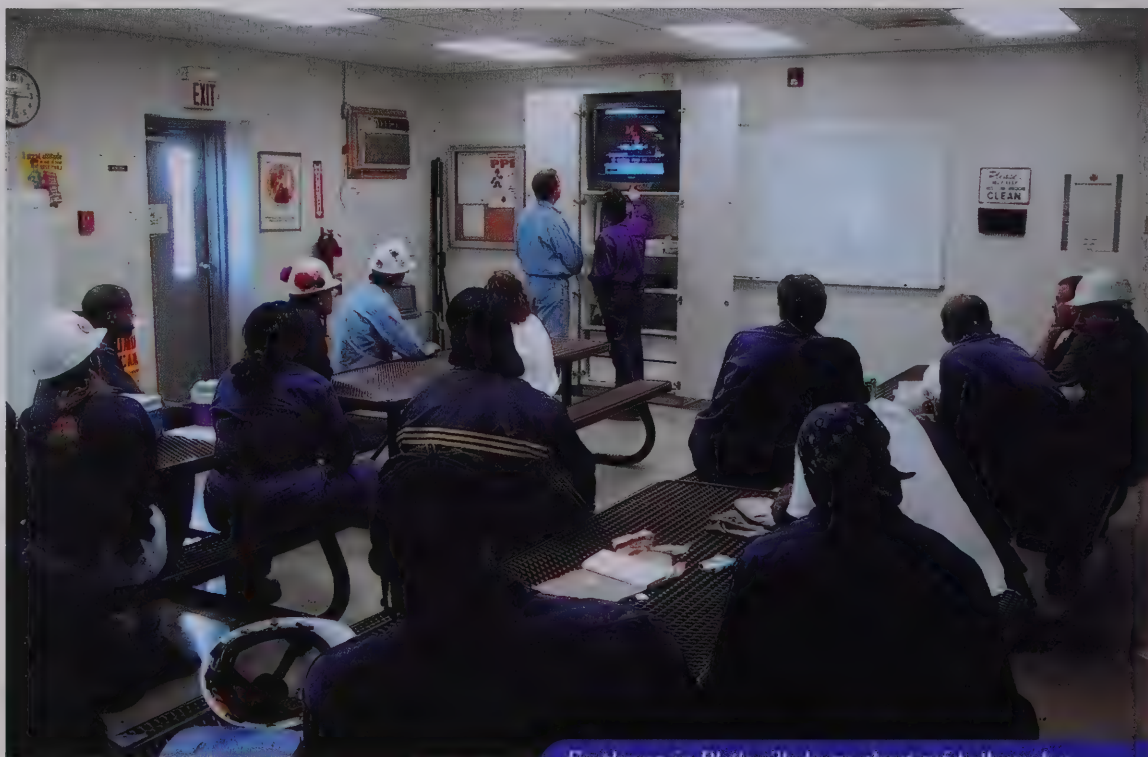
David Sutherland was appointed Executive Vice President and Chief Operating Officer on 1 March, following a 24-year career in various administrative, operating, and commercial functions. Immediately preceding this appointment he had been Vice President and General Manager, Raw Materials and Coil Processing. In October Sutherland was named President and Chief Executive Officer-designate, to take office on 1 January 2002 following the retirement of Roger Phillips who had completed 20 years in the role. IPSCO's Board of Directors has appointed Phillips as an honorary director in recognition of his long service to the company effective with his retirement.

George Valentine joined IPSCO in mid-year and was appointed Vice President and General Counsel of the company. He has had extensive experience both as an in-house attorney at other companies as well as experience as a private legal practitioner.

IPSCO regrets the death during the year of five individuals, all of whom left their mark on the company:

- James (Jim) McLennan who was with IPSCO from 1957 as Chief Financial Officer and then as President and Chief Executive Officer from 1976 to 1982. Mr. McLennan presided over the modernization and expansion of IPSCO's Regina Steelworks involving a new Steckel mill and a new electric furnace.
- John Gough who retired as a Vice President in 1985. Mr. Gough was involved in the earliest sales of IPSCO's large diameter pipe.

- William (Bill) Bailey, who was Vice President until his retirement in 1996. Mr. Bailey spearheaded myriad product innovations ranging from high strength steel for New York City subway cars to innovative couplings for oil well casings.
- John Wild, who was one of the company's first hourly paid workers in 1956, rising through the ranks to become the Regina Steelworks Manager and later Assistant to the Vice President, Canadian Steel Operations at his retirement in 1993. Mr. Wild guided IPSCO through several key periods in its evolution as a steelmaker.
- Chester (Chet) Miller, who had been responsible for corporate safety for only 15 months until his sudden death in 2001. Mr. Miller left as his legacy an invigorated safety culture throughout IPSCO.



*Employees in Blytheville learn about safety through a CD-Rom Multimedia Training Systems (MTS) program. The programs are presented at every IPSCO facility.*



# IPSCO as a Corporate Citizen

In 2001 IPSCO devoted \$937,000 to community supported and charitable endeavors; 1.5 percent of the company's annual after-tax profits averaged over the past three years. IPSCO has long used this formula that permits activities and organizations to benefit from the company's good fortunes while at the same time automatically cutting back such support to reflect downturns. IPSCO's donations program emphasizes local initiatives that are often neglected by larger firms but more broadly based charities are not forgotten. Employee committees at each IPSCO location are charged with recommending specific grants. Here are a few examples of their choices in 2001:

- In an immediate response to the terrorist attacks of 11 September a donation of \$20,000 was made to the American Red Cross. At several IPSCO locations employees showed their sympathy for the victims of the actions by holding blood drives and candlelight vigils. An unique expression of solidarity was the painting by an anonymous employee-artist of the

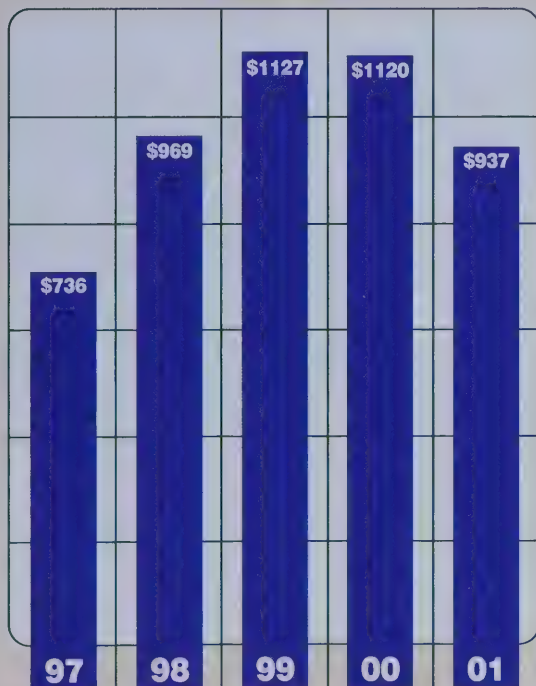
*Much has been written in recent years about what has been termed "corporate responsibility" and the supposed responsibility of companies towards "all" their stakeholders. IPSCO believes that its fundamental responsibilities are to obey the laws of the jurisdictions in which it operates and to represent the best interests of its owners, the shareholders. The first interest of its shareholders is to maintain IPSCO's financial health and to grow the company in a sound fashion. Absent this prerequisite a company cannot generate enough funds from its operations to maintain its assets in good working order, let alone attract new money to keep growing. When this happens a company dies, gradually or quickly as the case may be. Jobs disappear, suppliers lose business, communities lose a source of charitable donations to mention just a few of the consequences of its demise. But keeping a company growing and prosperous, while precluding spending commitments it cannot afford, does not mean turning its back on society as a whole.*

*IPSCO believes that being a good corporate citizen is a good investment for its shareholders.*

*At IPSCO being a good corporate citizen first and foremost means being a good neighbor. This is reflected in support for community activities and a pro-active response to environmental issues.*

## Charitable Donations

(\$ thousands)



Canadian and U.S. flags on a walkway in one of IPSCO's Canadian manufacturing facilities. The flags appeared on the morning of 12 September.

- In Calgary the company has participated in the PanCanadian Wordfest for a number of years by sponsoring Book Rapport,



*Corporal Pat Cullen assists Ryan Milroy in crossing the Safety Town Street, sponsored in part by IPSCO through its Camanche Works, which teaches children how to react to everyday safety hazards.*

Wordfest's youth education program where authors, students and teachers have an opportunity to interact in a unique setting.

- Mobile Opera was a beneficiary of an IPSCO donation program when the company became a sustainer of the Opera which provides full-scale operatic productions for the Gulf Coast Region.

In 2001 IPSCO recycled a total of 2,596,100 tons of steel scrap, using material that otherwise would have become an unsightly eyesore or have been placed in landfills. The recycling of scrap in electric furnaces to produce steel is a process that is relatively benevolent with respect to the environment – it consumes less energy than producing steel from iron ore and there are fewer

impurities to be removed by the refining process. This means fewer environmentally unfriendly substances may escape in the form of fugitive emissions to the air or water. This does not mean that IPSCO management does not pursue an aggressive environmental protection program. A concrete example of this aggressiveness was the registration of all but one IPSCO producing location under the International Standards Association's ISO 14001 standard for environmental management. The sole plant not registered was the Mobile Steelworks which was undergoing startup and commissioning activities at the time. The demanding ISO 14001 standard prescribes an environmental management framework. Periodic audits by an independent agency must be successfully undergone in order to





*The St. Paul Coil Processing facility posts evidence of its accomplishment in attaining ISO 14001 certification. St. Paul joined all of IPSCO's mature operating facilities in this achievement. ISO certification of its environmental management system was delayed at the Mobile Steelworks because while in start-up phase the facility was ineligible for certification.*

maintain certification. Capital spending for environmental enhancement and control purposes was \$11.4 million.

IPSCO believes that good corporate citizenship requires ensuring that society as a whole is as fully informed as possible on many factors. These include those that ensure the success of not only IPSCO and the steel industry, but our free market, democratic system in general. Making such points with respect to the steel industry in 2001 were the Canadian Steel Producers Association in Canada, the American Iron and Steel Institute and the Steel Manufacturers Association in the United States and North America in general, and the International Iron and Steel Institute globally. IPSCO is an active supporter of each. More broadly based

organizations to which IPSCO adheres are the national Chambers of Commerce in both the United States and Canada, local and regional Chambers of Commerce, the National Association of Manufacturers in the U.S., and in Canada the Canadian Council of Chief Executives. Among organizations involved in public policy research finding support from IPSCO are the Economic Strategy Institute in the U.S., and the C.D. Howe Institute, the Public Policy Forum, the Canadian Policy Research Networks, and the Fraser Institute in Canada.

*Roger Phillips*

Roger Phillips  
President and Chief Executive Officer (Retired)

# Outlook

At the end of 2001 the steel industry in North America was in very poor condition with 29 steel companies either operating in bankruptcy or closed. This was the cumulative result of wave after wave of steel imports capped off with a decline in demand as the economy dipped into recession during 2001. IPSCO was not isolated from these pressures and had additional exposure because of a decline in energy sector activity reducing demand for the company's important energy tubular products used from exploration through oil and gas transmission. In this context IPSCO's ability to remain profitable for the year is testimony to the underlying strength of the company and bodes well for an eventual strong recovery as external factors improve.

On March 5, 2002, President Bush released his remedy recommendations in the U.S. 201 safeguard action. The remedy imposes tariffs on a variety of products for a period of three years. Of particular interest to IPSCO are initial tariffs of 30 percent on flat rolled products and 15 percent on welded tubular products. In recognition of the NAFTA, Canada and Mexico were excluded from the finding. Countries that have been excluded from the finding, including Canada, will be subject to an import surge monitoring mechanism that will be introduced to ensure that the domestic industry is not further injured by increasing imports of products examined under the 201 case. In particular, IPSCO will be monitoring slab imports

closely given their potential to undermine relief provided on other products. Overall, IPSCO is pleased with the remedy and feels that it should offer the domestic industry an opportunity to adjust. IPSCO has participated actively in the numerous steel trade issues in both the U.S. and Canada and is fully supportive of the need to enforce the trade rules that a free and fair trading environment depends on.

The recent equity offering of 6,500,000 common shares and amendment of key terms of the company's credit facilities give IPSCO the financial flexibility to take advantage of whichever direction the steel business takes.

Looking ahead it is difficult to be precise about the numerous external issues that affect IPSCO's business. It is expected that there will be sufficient sales volume to allow IPSCO's modern facilities to achieve an efficient operating level this year. As yet it is unclear how quickly steel product prices will return to a more sustainable level but a start has been made in that direction. A return to a more active energy sector will also bode well for the company.

In conclusion, IPSCO believes that its very modern and well located facilities, willing and proven employees and sound financial footing have positioned the company to take the fullest possible advantage of the North American marketplace, which itself is driven by factors outside of our control.



# Corporate Information

## Directors

**Burton Joyce** (M, N)  
Dakota Dunes, South Dakota  
Retired President and Chief  
Executive Officer and Director,  
Terra Industries Inc.

**Thomas Kierans, O.C., (N)**  
Toronto, Ontario  
Chairman,  
The Canadian Institute of Advanced  
Research

**Jack Michaels** (A)  
Muscatine, Iowa  
Chairman, President and Chief  
Executive Officer,  
HON INDUSTRIES

**Bernard Michel** (M)  
Saskatoon, Saskatchewan  
Chairman and Chief Executive  
Officer,  
Cameco Corporation

**Allan Olson** (A, N)  
Spruce Grove, Alberta  
President,  
First Industries Corporation

**Arthur Price** (M)  
Calgary, Alberta  
Chairman and Chief Executive  
Officer,  
Axia NetMedia Corporation

**Richard Sim** (M)  
London, England  
President and Chief Executive Officer,  
APW Ltd.

**David Sutherland**  
Naperville, Illinois  
President and Chief Executive Officer,  
IPSCO Inc.

**Roger Tetrault** (A)  
Punta Gorda, Florida  
Retired Chief Executive Officer,  
McDermott International Inc.

**Gordon Thiessen** (A)  
Ottawa, Ontario  
Retired Governor of the  
Bank of Canada and Corporate  
Director

**Kim Thorson, Q.C.** (M)  
Weyburn, Saskatchewan  
Barrister and Solicitor

**D. Murray Wallace** (A)  
London, Ontario  
Chairman, Park Street Capital  
Corporation  
President, Axia NetMedia Corporation

**John Zaozirny, Q.C.** (M, N)  
Calgary, Alberta  
Counsel, McCarthy, Tétrault

## Officers

**Burton Joyce**  
Dakota Dunes, South Dakota  
Chairman of the Board

**David Sutherland**  
Naperville, Illinois  
President and Chief Executive Officer

**Charles Backman**  
Regina, Saskatchewan  
Senior Vice President and Chief  
Administrative and Engineering  
Officer

**David Britten**  
Naperville, Illinois  
Vice President and General  
Manager, Tubular Products

**Barry Hodson**  
Bragg Creek, Alberta  
Vice President and General Sales  
Manager, Canadian Tubular Products

**Peter MacPhail**  
Regina, Saskatchewan  
Vice President and General Manager,  
Canadian Steel Operations

**Daniel Miksta**  
Libertyville, Illinois  
Vice President and General Sales  
Manager, Steel Products

**Anne Parker**  
Wheaton, Illinois  
Vice President, Trade Policy and  
Communications

**Raymond Rarey**  
Geneva, Illinois  
Vice President and Chief Personnel  
Officer

## Committee Membership as of 1 January 2002

- (M) Member of the Management Resources and Compensation Committee  
(A) Member of the Audit Committee  
(N) Member of the Nomination and Governance Committee

# Corporate Information

**Robert Ratliff**

Batavia, Illinois  
Vice President and Chief Financial  
Officer

**Joseph Russo**

Aurora, Illinois  
Senior Vice President and  
Chief Technical Officer

**Charles Sanida**

Chicago, Illinois  
Vice President and General  
Manager, U.S. Steel Operations

**John Tulloch**

Naperville, Illinois  
Senior Vice President and Chief  
Commercial Officer

**George Valentine**

Chicago, Illinois  
Vice President and General Counsel

**John Comrie, Q.C.**

Naperville, Illinois  
Secretary

**Philip Marusarz**

Lemont, Illinois  
Treasurer

**Robert Eisner**

Regina, Saskatchewan  
Assistant Treasurer

**Auditors**

Ernst & Young LLP  
Chicago, Illinois

**Listings**

The New York Stock Exchange  
The Toronto Stock Exchange

**Registrars and Transfer****Agents**

Computershare Trust Company of  
Canada  
The Bank of New York

**Stock Symbols**

IPS – Common shares

IPS.PR.A – Preferred Shares  
(Toronto Stock Exchange Only)

For information regarding the  
company refer to the company's web  
site located at [www.ipsco.com](http://www.ipsco.com) or  
contact:

Communications Department  
P.O. Box 1670  
Regina, Saskatchewan  
S4P 3C7



# Six Year Summary

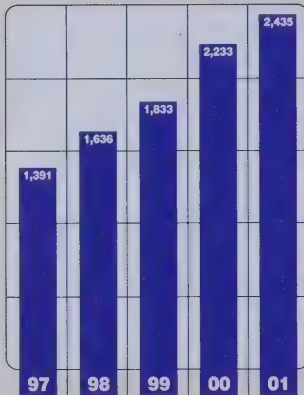
(\$U.S. unless otherwise indicated)

	Year Ended 31 December	2001	2000	1999	1998	1997	1996
<b>OPERATIONS</b>	Coil and Plate Tons Produced	2,238.2	1,904.5	1,662.2	1,466.7	1,058.9	969.4
	Finished Tons Shipped	2,435.1	2,233.2	1,832.9	1,635.7	1,390.6	1,160.1
	Sales Per Ton *	\$ 380	\$ 425	\$ 441	\$ 438	\$ 481	\$ 452
	Less: Cost excluding interest and income taxes *	361	386	381	365	392	390
	Operating Profit Per Ton * ♦	\$ 19	\$ 39	\$ 60	\$ 73	\$ 89	\$ 62
	Average Number of Employees *	2,288	1,962	1,752	1,721	1,710	1,508
<b>STATEMENT OF EARNINGS</b>	Sales	\$ 903.7	\$ 949.3	\$ 808.3	\$ 717.0	\$ 668.9	\$ 524.9
	Less: Cost of Sales **	799.3	826.3	661.9	583.5	528.1	431.7
	Interest on Long-Term Debt	6.6	6.9	19.1	16.0	5.8	1.3
	Amortization	37.1	35.3	29.7	20.2	12.5	12.5
	Income Before Income Taxes	60.7	80.8	97.6	97.3	122.5	79.4
	Less: Income Taxes	21.8	23.1	23.3	23.5	36.3	25.1
	Net Income	38.9	57.7	74.3	73.8	86.2	54.3
	Dividends on Preferred Shares	5.7	6.0	5.9	0.7	—	—
	Interest on Subordinated Notes	5.8	4.9	0.1	—	—	—
	Net Income Available to Common Shareholders	\$ 27.4	\$ 46.8	\$ 68.3	\$ 73.1	\$ 86.2	\$ 54.3
	Cash Flow from Operating Activities						
	From Earnings	\$ 57.8	\$ 92.2	\$ 81.7	\$ 93.9	\$ 87.8	\$ 62.2
<b>STATEMENT OF CASH FLOWS</b>	From Operating Working Capital	50.5	(69.4)	(26.2)	(45.6)	(39.2)	(26.8)
	Total Dollars	\$ 108.3	\$ 22.8	\$ 55.5	\$ 48.3	\$ 48.6	\$ 35.4
	Cash Capital Expenditures	\$ 157.8	\$ 370.3	\$ 120.7	\$ 107.4	\$ 159.5	\$ 77.1
<b>FINANCIAL POSITION AT YEAR END</b>	Current Assets	\$ 440.1	\$ 447.6	\$ 479.2	\$ 453.7	\$ 406.0	\$ 345.4
	Less: Current Liabilities	216.8	182.2	196.7	125.2	172.3	115.7
	Working Capital	223.3	265.4	282.5	328.5	233.7	229.7
	Capital and Other Long-Term Assets	1,291.9	1,175.1	993.8	809.1	668.3	570.2
	Total Investment	1,515.2	1,440.5	1,276.3	1,137.6	902.0	799.9
	Less: Long-Term Debt	386.8	343.8	297.5	286.5	272.6	251.5
	Deferred Items	142.9	112.1	98.9	60.0	20.5	32.3
	Shareholders' Equity	\$ 985.5	\$ 984.6	\$ 879.9	\$ 791.1	\$ 608.9	\$ 516.1
<b>FINANCIAL RATIOS</b>	Return on Common Shareholders' Equity	4%	6%	9%	11%	15%	11%
	Long-Term Debt as a % of Total Capitalization	28%	26%	25%	27%	31%	33%
	Working Capital Ratio	2.0:1	2.5:1	2.4:1	3.6:1	2.4:1	3.0:1
<b>SHAREHOLDER INFORMATION (adjusted for 3-for-2 stock split of March 1998)</b>	Net Income Per Common Share *	\$ 0.67	\$ 1.15	\$ 1.68	\$ 1.80	\$ 2.12	\$ 1.34
	Net Income Per Common Share (Diluted) * ‡	0.66	0.91	1.58	1.75	2.08	1.33
	Dividends Paid Per Common Share in Canadian Dollars*	0.425	0.50	0.50	0.50	0.32	0.32
	Dividends Paid Per Preferred Share in Canadian Dollars*	1.375	1.375	1.375	—	—	—
	Shareholders' Equity Per Common Share *	24.13	24.13	21.57	19.44	14.97	12.69
	Range of Market Value of Common Stock in Canadian Dollars – High *	25.85	30.50	35.00	47.00	45.33	26.60
	on TSE – Low *	13.10	10.95	23.00	24.50	23.67	18.67
	Range of Market Value of Common Stock in United States Dollars – High *	16.35	20.50	24.13	33.00	32.71	19.67
	on NYSE / NASDAQ – Low *	8.56	7.31	15.63	16.25	17.58	14.00
	Range of Market Value of Preferred Stock in Canadian Dollars – High *	25.15	25.25	26.45	25.90	—	—
	on TSE – Low *	23.00	22.40	24.00	24.80	—	—
	Number of Common Shares	40.8	40.8	40.8	40.7	40.7	40.7

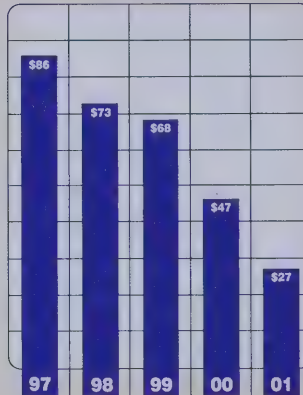
\* Dollars and numbers of shares in millions and tons in thousands except as indicated by asterisk. \*\* Includes selling, research and administration expenses. \*\*\* Previously published Canadian dollar figures have been converted to United States dollars using the 01 January 1999 exchange rate of CDN \$1.5333 per US \$1 in accordance with Canadian generally accepted accounting principles excepting Range of Market Value in US\$. ♦ Excludes Mobile shipments to 30 September 2001 and Montpelier shipments to 3 May 1998. ‡ Diluted earnings per share have been calculated retroactively in accordance with revised CICA handbook section 3500.

# Financial Charts

**Tons Shipped**  
(thousands of tons)



**Net Income Available to Common Shareholders**  
(\$ millions)

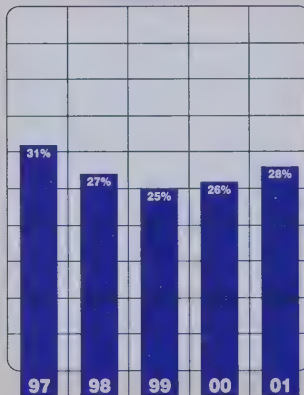


**Basic Earnings Per Common Share\***

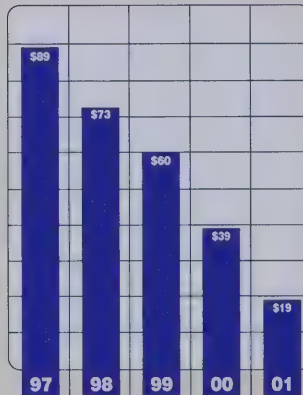


\* Reflects 3-for-2 stock split of March 1998

**Debt as a Percentage of Total Capitalization**  
(Canadian GAAP)

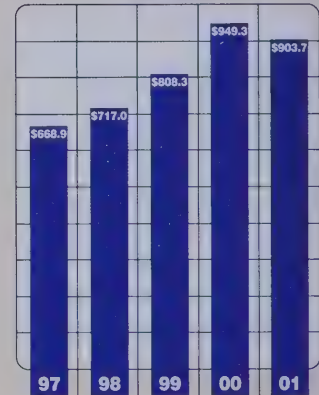


**Operating Profit Per Ton\***

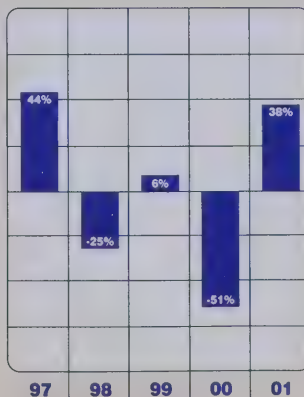


\* Excluding Mobile shipments to 30 September 2001 and Montpelier shipments to 3 May 1998

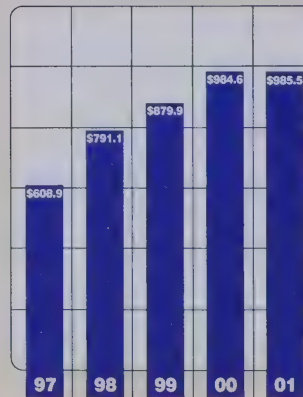
**Sales Dollars**  
(\$ millions)



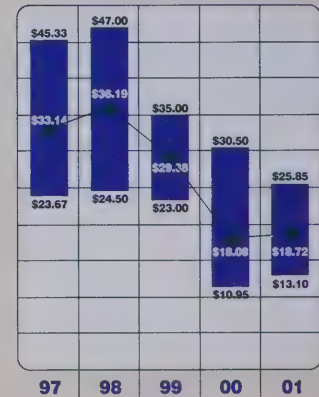
**Market Return on Common Shares**



**Book Value of Shareholders' Equity**  
(\$ millions)



**Average Share Prices\***  
(\$ CDN)



\* Reflects 3-for-2 stock split of March 1998



**MD&A • 2001**

**40-F/AIF • 2001**

**INTRODUCING IPSCO • 2001**



**ipSCO**

## **IPSCO Inc.**

(A Canadian Corporation)

## **LEGAL HEAD OFFICE**

P.O. Box 1670

Regina, Saskatchewan S4P 3C7

## **OPERATIONAL HEAD OFFICE**

650 Warrenville Road, Suite 500

Lisle, Illinois 60532

## **WORKS**

Regina, Saskatchewan, P.O. Box 1670

Calgary, Alberta, 7201 Ogdendale Rd. S.E.

Montpelier, Iowa, 1770 Bill Sharp Boulevard

Camanche, Iowa, 2011 - 7th Ave.

St. Paul, Minnesota, 2500 W. County Road B

Houston, Texas, Greens Port Industrial Park,  
13609 Industrial Road

Red Deer, Alberta, Central Park Road

Geneva, Nebraska, 1201 R Street

Surrey, British Columbia, 8250 - 130th St.

Toronto, Ontario, 1051 Tapscott Road

Blytheville, Arkansas, 5460 N. State Hwy 137

Mobile, Alabama, 12400 Highway 43 N., Axis, Alabama

## **PRINCIPAL SUBSIDIARIES**

(100% owned unless otherwise noted)

IPSCO Saskatchewan Inc.

(A Canadian Corporation)

IPSCO Ontario Inc.

(A Canadian Corporation)

IPSCO Steel Inc.

(A Delaware Corporation)

IPSCO Enterprises Inc.

(A Delaware Corporation)

IPSCO Tubulars Inc.

(A Delaware Corporation)

IPSCO Minnesota Inc.

(A Delaware Corporation)

IPSCO Texas Inc.

(A Delaware Corporation)

IPSCO Steel (Alabama) Inc.

(An Alabama Corporation)

General Scrap Partnership

(91% owner as at 31 December 2001)

*On peut obtenir la version française de ce  
rapport sur demande écrite adressée à:*

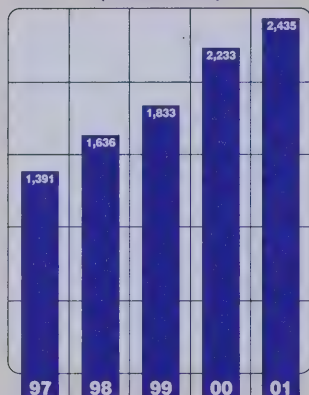
IPSCO Inc. Communications

C.P. 1670, Regina (Saskatchewan) S4P 3C7

# Financial Charts

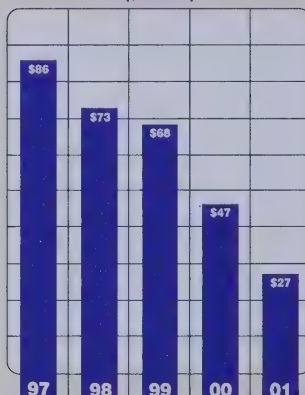
### Tons Shipped

(thousands of tons)



### Net Income Available to Common Shareholders

(\$ millions)



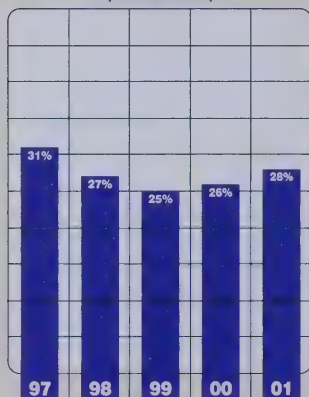
### Basic Earnings Per Common Share\*



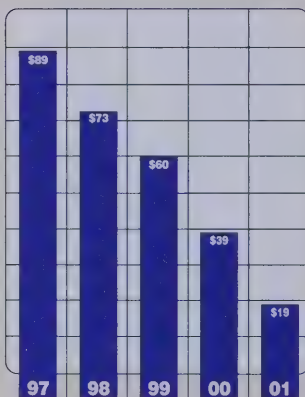
\* Reflects 3-for-2 stock split of March 1998

### Debt as a Percentage of Total Capitalization

(Canadian GAAP)



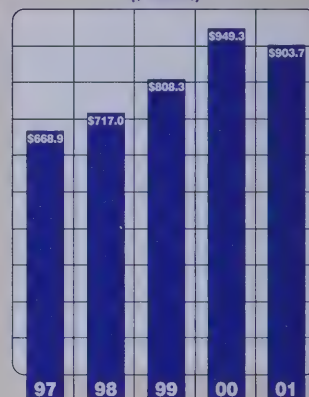
### Operating Profit Per Ton\*



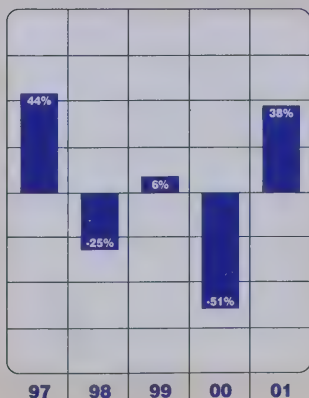
\* Excluding Mobile shipments to 30 September 2001 and Montpelier shipments to 3 May 1998

### Sales Dollars

(\$ millions)

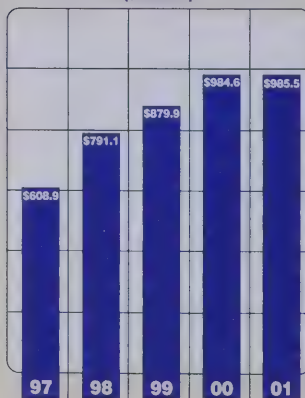


### Market Return on Common Shares



### Book Value of Shareholders' Equity

(\$ millions)



### Average Share Prices\*

(\$ CDN)



\* Reflects 3-for-2 stock split of March 1998





*In this document unless the context otherwise indicates, references to IPSCO or the Company include both IPSCO Inc. and its wholly owned or controlled subsidiaries. Certain statements in this commentary constitute "forward-looking statements". See "Note Regarding Forward-Looking Statements" on the inside cover of the Company's 2001 Annual Report.*

## A WORD ABOUT STEEL PROCESSES

"Carbon steel" is so called in order to differentiate it from "stainless steel". While both products contain iron, "stainless steel" contains a high proportion of metals such as nickel and chrome to give it corrosion resistance and tends to be much more expensive (roughly three to four times as much as carbon steel per ton depending on the grade). Carbon steels contain carbon as a strengthening element and often other alloying materials but in much smaller amounts than for stainless. Carbon steels are less expensive and easier to form and weld but must generally rely on protective coatings for corrosion protection.

Carbon steel applications are many and varied: the painted steel covering of an automobile, steel wire which forms the core to support aluminum in long distance electric transmission cables, steel plate used to build railway cars, barges, storage tanks, and farm equipment, beams used in building construction, galvanized farm roofs, pipe of all sorts, to name just a few.

Because of its cost and ease of fabrication, carbon steel is by far the predominant steel in use (roughly 97 percent of worldwide steel consumption). Stainless steel is produced in specialized melting facilities and typically not on the same equipment as carbon steels, and most often by companies specializing in stainless only.

Carbon steel and carbon steel products manufacturing can be briefly described in four steps:

1. The production of liquid steel.
2. The conversion of the liquid steel to slabs, blooms, billets or cast shapes as feed stock for rolling mills.
3. The production of the first level of wrought product at the steel mill.
4. The production of further fabricated steel products.

Liquid steel is produced in one of two general ways. So-called integrated steel producers use blast furnaces where iron ore (which is iron oxide) is chemically reduced by introducing blasts of heated air to metallurgical grade coke (carbon) and other additives to produce liquid unpurified iron (liquid pig iron) along with carbon dioxide and carbon monoxide gases as bi-products. The liquid pig iron is then refined in a basic oxygen furnace and after additions of alloys, sometimes taking place in a liquid metallurgy furnace, becomes liquid steel. Electric furnace steel producers such as IPSCO start off with iron which has already been reduced, most often in the form of steel scrap which is melted and refined as necessary in electric furnaces. Sometimes iron units in the form of cold pig iron or iron produced in a separate process are used in combination with the scrap.

The liquid steel resulting from either process is then converted to the first level of wrought steel mill product, which may be anyone of the following:

1. Hot rolled coil
2. Hot rolled discrete plate
3. Rods, bars, small beams, angles, and various other shapes
4. Larger beams



## INTRODUCING IPSCO 2001

5. Seamless pipe
6. Rails

IPSCO produces only the first two levels of wrought steel mill products: hot rolled coil and hot rolled discrete plate.

A given steel production facility typically specializes in only some of these products because the manufacturing equipment used must be different.

One such specialization would be the production of hot rolled coil using a conventional (4" to 12") slab caster, reheat furnace, and a tandem (multi-stand) hot strip mill. Another would be the production of hot rolled coil using a thin (2") slab caster, roller hearth furnace and a tandem hot strip mill.

Alternatively, specialization could be achieved by using a similar caster and reheat furnace to feed a traditional plate mill where the slab, after re-heating, is rolled, using the cross-rolled method, to produce a discrete plate product. In cross-rolling the slab is manipulated and rotated 90 degrees for a given number of passes to make the required width.

IPSCO utilizes a production system that permits it to produce either coil or discrete plate on the same rolling mill, a so-called Steckel mill that replaces both the hot strip mill and the traditional plate mill. This provides flexibility in that as demand drops or increases for one of the two products the product mix can be adjusted to maximize facility use and profitability. Such an equipment configuration is often built to produce wider coil than that available from hot strip mills. In addition the discrete plate products do not use the cross-rolled method but are made in a straight through process.

Rods, bars, small beams and angles are rolled on specialized bar mills which use square or rectangular billets produced from liquid steel on a billet caster.

Larger beams are produced similarly to rods, bars, etc. but using larger casters that produce a beam blank and specialized rolling mills.

Rails are produced similarly to larger beams but using blooms and specialized rolling mills. Seamless pipe is produced from round cast billets and rolled on special pipe mills.

Further fabricated steel mill products are generally produced by steel companies (and sometimes by specialized manufacturers that buy steel mill products) using the products described above as feed stock for their process.

Cold rolled steel is produced after a surface cleaning process, by further rolling the hot rolled coils on specialized cold rolling mills.

Coated (galvanized or painted) steel is produced on special coating lines that are usually fed by cold rolled steel coils.

Pipe of varying diameters is made by either electric resistance welding ("ERW") using hot rolled coil or by submerged arc welding ("SAW") using hot rolled coil or discrete plate. In the ERW process, a coil of steel is continuously fed through a set of rolls to bend it into a cylindrical hollow shape with the coil's length as its axis. The two edges are then heated to red-hot temperatures by applying electric energy and forced together such that the edges are fused permanently upon cooling. In the spiral SAW process, coils or plate are continuously fed into equipment which forms the tube by winding it spirally and then welding it together using two welds, one on the inside and one on the outside. In the longitudinal SAW process,

plate is fed into equipment which forms the tube by bending it into a cylindrical hollow shape with the coil's length as its axis and then welding it together using two welds, one on the inside and one on the outside.

Cut-to-length steel in varying thicknesses is produced by feeding either hot rolled or cold rolled coil through equipment called cut-to-length lines. These lines unwind the coil, and level and cut the material to the desired length. The lengths of material are then stacked in preparation for shipping. Material produced in this fashion tends not to be completely free of residual stresses resulting from the fact that the steel was cooled down in coil form and then mechanically flattened. For this reason such cut-to-length products cannot be used for some demanding applications. A temper mill (a cold reduction mill stand) can be used in tandem with a cut-to-length line to provide superior surface and physical properties and which can substantially decrease the amount of residual stresses.

Steel wire is produced by a drawing process that uses rod product as a feedstock.

## IPSCO

IPSCO Inc. was incorporated by nine investors in 1956 under the name of Prairie Pipe Manufacturing Co. Ltd. and proceeded to install pipemaking facilities in Regina, Saskatchewan, Canada. It became a public company and was listed on the Toronto, Winnipeg and Vancouver stock exchanges in 1958. Its name was changed to Interprovincial Steel and Pipe Corporation Ltd. in 1960 after it commenced steel production. In 1984 it changed its name to IPSCO Inc., adopting the acronym by which it was generally known, as the full name.

IPSCO's common shares are currently traded on The Toronto Stock Exchange in Canada and the New York Stock Exchange in the United States. Today, IPSCO's shares are almost entirely in the hands of individual investors and financial institutions such as insurance companies, pension plans, or mutual funds.

IPSCO's financial performance is affected by both the general economic cycle in North America and the demand for some of its specialized products, which may or may not be synchronous with the general cycle. The worldwide state of supply and demand for steel is also a significant factor, as are the U.S. and Canadian exchange rates with other currencies.

The North American steel industry is one characterized by intense competition and significant cyclicity. World steelmaking supply exceeds demand. Such imbalances in the global supply and demand situation, together with a need for hard currency in many nations, and a motivation to maintain operations at steel mills that are often not driven by market forces, have been evidenced in many instances of unfair trading of steel into North American markets.

As well, other materials are competing with steel for many traditional steel end-use applications.

IPSCO's response to these conditions is a continuing effort to lower unit costs, diversify product lines, and widen the geographic markets in which it participates while focusing on a niche of wider and thicker forms of flat hot rolled steel. In addition, IPSCO pursues trade actions in the form of anti-dumping and countervail cases when appropriate as well as participating in safeguard actions such as the case underway in the U.S. in 2001.

IPSCO pursues a policy of upgrading its facilities and installing new facilities to take advantage of technological developments that can be economically translated into higher quality or lower cost, safer, or



more environmentally friendly operations. Over the years IPSCO has expanded on both the Regina site and elsewhere through new construction as well as acquisition. The average age of its approximately US \$1.4 billion of capital assets is 6.8 years reflecting IPSCO's desire to operate equipment and processes that utilize up-to-date steel production and processing technology.

IPSCO's operating steelworks, located in Regina, Saskatchewan, Montpelier, Iowa, and Mobile, Alabama have a combined annual design capacity of three and one-half million tons of hot rolled coil and discrete plate.

The major raw material used in the steelmaking process is iron or steel scrap. IPSCO's total annual consumption of iron and steel scrap, is approximately 110 percent of its liquid steel production tonnage, making it a large recycler of steel.

On a combined basis Canada and the United States typically produce steel scrap in excess of their needs and thus are traditionally net exporters of steel scrap to customers on other continents. Virtually all scrap transactions are of a "spot" nature, that is price is set at the time of purchase with no forward price protection. Broadly speaking these "spot prices" increase and decrease based upon the supply and demand for steel products and the resultant worldwide demand for scrap.

IPSCO deals with a variety of suppliers for its supply of scrap steel.

For the Regina Steelworks, the Company's main suppliers of scrap steel are located in Western Canada and the north central United States. In the past the Company has been able to source all required scrap steel for Regina even when operating at full capacity. In 1997 it became the majority interest partner in a scrap supply operation to the Regina facility which comprises ten scrap processing centers of which five include licensed scrap shredders. The partnership, together with a wholly-owned subsidiary, IPSCO Direct Inc., provided about about 40 percent of the Regina Steelworks 2001 requirements. The Company is confident that it would be able to source sufficient amounts of scrap steel even without this supply. For the Montpelier and Mobile Steelworks the Company will purchase steel scrap from third parties in the spot market.

The electric arc steelmaking process uses electrical energy that flows through graphite electrodes positioned above (and then controlled to come in contact with) the steel scrap creating an electrical arc reaching temperatures up to 5500 degrees Fahrenheit. The use of this electricity makes the steelworks large consumers of electricity. At each of the three steelmaking facilities the Company purchases electricity under long-term contracts with local utilities at prices generally consistent with the high volume nature of the contracts. The graphite electrodes are slowly but constantly consumed in the process. Other raw materials include, but are not limited to, elements such as manganese, silicon, niobium, vanadium, and molybdenum. These elements are added to certain types of steel in order to impart special properties such as strength, corrosion resistance, and weathering characteristics. Lime is used as a flux in the process to remove impurities. Oxygen is used to remove impurities during the steelmaking process and to provide additional energy for melting the raw materials. Carbon dioxide and argon gases are used to shield the liquid steel from air contamination during refining and pouring.

The fumes which rise above the electric furnaces comprise a fine dust that contains heavy metals ("EAF dust"). These are collected by a special duct system that resembles a giant vacuum cleaner. Modern electric furnace technology is such that virtually all of this dust, classified as a hazardous waste, is collected and is disposed of in accordance with applicable laws and regulations.

Furnace slag is generated in the steelmaking process (comprising chiefly iron, limestone and silica) but can generally be used when sold for roadway and parking lot landfill. A further by-product, iron oxide "fines" removed from cooling water, are used as a raw material by some cement companies.

Steelmaking is a water intensive process. Millions of gallons of water are circulated daily in the steel melting, casting and rolling operations, chiefly as a process coolant. In order to conserve water it is continuously treated, purified, and then recycled. Some additional water is used in IPSCO's pipe operations.

When compared to heavy industry generally or to integrated steelmaking in particular, IPSCO's electric furnace operations are relatively benign as can be inferred from the above process description. Like other companies in the steel industry, however, IPSCO is subject to numerous complex federal, provincial, state and local environmental laws and regulations (as well as permits, licenses, and approvals thereunder). These concern among other things, discharges to water and soil, air emissions, noise control, the generation, handling, storage, transportation, treatment and disposal of hazardous substances, and solid waste disposal.

In 2001 IPSCO became the first multi-site steel producer in Canada to achieve ISO 14001 certification of its environmental management system. All of the Company's U.S. facilities, save the Mobile Steelworks, which has only recently commenced operations and was ineligible for certification during its start-up, were also certified to ISO 14001 during 2001.

Liquid steel produced in the electric furnaces is fed to casters that continuously convert it to slabs of six or eight inches thick. These slabs are then converted to discrete plate or hot rolled coil in Steckel rolling mills. IPSCO produces discrete plate between 3/16 inches thick up to 3 inches, up to 120 inches wide, and in lengths typically from 8 feet to as many as 80 feet long, although not all IPSCO steelworks have the same capabilities. The hot rolled coil ranges between 1/10 of an inch to 3/4 inch thick in widths up to 96 inches with coil weights up to almost 45 tons.

Discrete plate and hot rolled coils are sold to customers who cut them into smaller pieces and then fabricate end products ranging from lamp poles, storage tanks, railroad cars, barges, ships, electric transmission line poles, farm equipment and implements, to bridges, earth moving and other construction equipment, truck bodies, and the list goes on. The advent of lasers to cut steel has seen the growing use of steel plate as blanks from which myriad small parts can be cut. Hot rolled steel coils are also used by IPSCO customers for the production of tubular products.

IPSCO itself operates coil processing equipment in Regina; Surrey, British Columbia; St. Paul, Minnesota; Toronto, Ontario; and Houston, Texas that converts hot rolled coil to sheet and plate by uncoiling, flattening with special equipment, and cutting to length. The product is then sold to industrial manufacturers for similar end-uses to those described in the previous paragraph. The Toronto, Houston and St. Paul facilities include temper leveling.

IPSCO produces tubular products up to 24 inches in diameter by the electric resistance weld process ("ERW"). To produce rectangular or square tubes the round pipe is put through a set of forming rolls to alter its shape. IPSCO operates ERW pipemaking facilities in Calgary and Red Deer, Alberta; Camanche, Iowa; Geneva, Nebraska; Blytheville, Arkansas; and Regina, making pipe from 2 inches to 24 inches in diameter but not all pipe mills in the IPSCO group have the same product and size ranges. Pipe diameters over 24 inches and up to 80 inches, chiefly used in gas and oil long distance transmission, are produced using helical SAW welding to produce "spiral pipe". IPSCO produces spiral pipe at Regina.

The tubular products made include plumbing pipe for water distribution (primarily in multi-family dwellings and commercial or industrial establishments); oil and gas well casing and tubing (referred to in the trade as "oil country tubular goods" or "OCTG"); pipe for gathering oil and gas from wells, transmitting it long distances, and for the final distribution to end-customers (pipe for these purposes is collectively referred to as "line pipe"); water and sewage transmission pipe; and, tubular products for



building and construction applications, most often in square or rectangular cross-sections (commonly referred to as “hollow structural sections” or “HSS”).

A table giving further detail on IPSCO’s production facilities can be found at the end of this pamphlet.

Because IPSCO is not only a large producer of hot rolled coil and plate but also consumes large quantities of steel in its further fabricating operations, coil processing, and tubular products manufacturing, it often has the opportunity of either making or buying its steel needs. IPSCO attempts to maintain a situation whereby its sales of plate and coil to third parties plus its own needs for the fabricating operations exceed its production capacity. With such a “steel short” condition IPSCO can select for its own production the product mix that optimizes total profit, buying the balance from other steel producers. When demand falls off purchases can be reduced while IPSCO’s own facilities remain busy. Successful implementation of this strategy requires central decision-making involving the analysis of cross-company incremental costs and total profits. Such a strategy runs counter to the concept of individual profit centers which could easily sub-optimize profits. Thus while IPSCO maintains some specialized sales and production units there is no profit center structure.

The Company operates a centrally managed sales function for the sale of plate, coil and cut-to-length products with a dedicated sales force handling the sale of products from all of its steelmaking and coil processing facilities in both the United States and Canada. Large volume orders for IPSCO products are normally sold directly either to the end-user manufacturers or steel distributors who buy in bulk from IPSCO and resell smaller quantities. In addition, the Company maintains a specialized tubular products sales force strategically located in both the U.S. and Canada for sales of these products. For some products such as oil country tubular goods or standard pipe there exist specialized distributors.

IPSCO’s business philosophy is that it exists to serve customers. While all manufacturers undoubtedly embrace this “truism”, IPSCO puts its philosophy into practice in a three-pronged approach stressing service, quality, and research and product development.

There is an ever-increasing demand for the supply of quality products that not only display consistent compliance with customer specifications but also demonstrate a reliability of performance within the customers’ own process. At IPSCO this demand is addressed by an ongoing commitment to continuous analysis and improvement of IPSCO’s production system. Modern statistical process control methods and sophisticated testing techniques in combination with the application of nationally recognized quality standards are aimed at providing IPSCO’s customers with a consistently high quality product. Most of IPSCO’s works are registered under the ISO 9002-94 quality standards for the production of steel and tubular products with only those facilities that are completing commissioning not yet being registered.

Research activities are carried out at a research facility in Regina covering both studies designed to improve IPSCO’s production methods as well as enhance properties of the end-products in order to improve their performance in the hands of IPSCO customers. Work is also carried out under contract at several American and Canadian universities.

It is hoped that this brief introduction to IPSCO will be of assistance to shareholders and others.

**For further information regarding the Company contact:**

Anne Parker

*Vice President, Trade Policy and Communications*

650 Warrenville Road, Suite 500, Lisle, IL 60532

Telephone: (630) 810-4800 email: [aparker@ipsco.com](mailto:aparker@ipsco.com)

Production and steel processing equipment by location, including those currently being developed:

Location	Principal Equipment	Output Capacity (tons)	Real Property (Acres)
Regina, Saskatchewan	Electric arc furnaces, ladle metallurgy furnace, continuous slab caster and hot rolling equipment (Steckel mill)	Capacity sufficient to produce 1,000,000 tons of mill edge coil and discrete plate	570
	Slitter	500,000	
	Slitter	500,000	
	Cut-to-length line	150,000	
	24" ERW pipe mill	300,000	
	2" ERW pipe mill	50,000	
	Three spiral weld pipe mills	300,000	
Calgary, Alberta	ERW pipe mill, threading and heat treating equipment	300,000	82
Red Deer, Alberta	ERW pipe mill	155,000	118
Surrey, British Columbia	Cut-to-length line	150,000	Fewer than 5
Toronto, Ontario	Temper mill and cut-to-length line	300,000	Leased Facility
Montpelier, Iowa	Electric arc furnaces, ladle metallurgy furnace, continuous slab caster, and hot rolling equipment (Steckel mill)	1,250,000 design capacity of discrete plate and hot rolled coil	2,000
St. Paul, Minnesota	Temper mill and cut-to-length line	300,000	Leased facility
Camanche, Iowa	ERW pipemill and threading equipment	200,000	135
Geneva, Nebraska	ERW pipemill	120,000	13
Blytheville, Arkansas	ERW pipemill	300,000	60 <sup>(1)</sup>
Houston, Texas	Temper mill and cut-to-length line	300,000	Leased facility
Mobile County, Alabama	Electric arc furnaces, ladle metallurgy furnace, continuous slab caster and hot rolling equipment (Steckel mill)	1,250,000 design capacity of discrete plate and hot rolled coil	850 <sup>(1)</sup>

<sup>(1)</sup> Land leased under a long term lease.









UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

**FORM 40-F**

ANNUAL REPORT PURSUANT TO SECTION 13(a) OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended 31 December 2001

Commission file number: 0-19661

**IPSCO Inc.**

(Exact name of Registrant as specified in its charter)

**CANADA**

(Province or other jurisdiction of incorporation or organization)

**3312/3315/3317/3325/3399**

(Primary Standard Industrial Classification Code Numbers)

**650 Warrenville Road, Suite 500, Lisle, Illinois 60532, Telephone: (630) 810-4800**

(Address and telephone number of Registrant's principal executive offices)

**Mr. G. Valentine, Vice President and General Counsel, IPSCO**

**650 Warrenville Road, Suite 500, Lisle, Illinois 60532**

(Name, Address, (including zip code) and telephone number (including area code)  
of agent for service in the United States)

**Securities registered pursuant to Section 12(b) of the Act:** Common Shares

**Securities registered or to be registered pursuant to Section 12(g) of the Act:**  
**Title of Class:** None

**Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:** None

**Information filed with this form:**

☒ Annual Information Form

☒ Audited annual financial statements

**Number of outstanding shares of each of the issuer's classes of  
capital or common stock as of the close of the period covered by the annual report**  
40,843,536 Common Shares outstanding as of 31 December 2001

Indicate by check mark whether the Registrant by furnishing the information contained in this Form is also thereby  
furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

☐ Yes

☒ No

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of  
the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant  
was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

☒ Yes

☐ No

A number of the documents incorporated by reference herein contain forward-looking statements. Certain statements in this Form 40-F constitute "forward-looking statements" within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. (See "Note Regarding Forward-Looking Statements" on page 8 of the Annual Information Form of IPSCO Inc. dated 27 February 2002, incorporated herein and forming an integral part of this document).

## UNDERTAKING

IPSCO Inc. undertakes to make available, in person or by telephone, representatives to respond to inquiries made by the Commission staff, and to furnish promptly, when requested to do so by the Commission staff, information relating to: the securities registered pursuant to Form 40-F; the securities in relation to which the obligation to file an annual report on Form 40-F arises; or transactions in said securities.

## SIGNATURES

Pursuant to the requirements of the Exchange Act, IPSCO Inc. certifies that it meets all of the requirements for filing on Form 40-F and has duly caused this annual report to be signed on its behalf by the undersigned, thereto duly authorized.

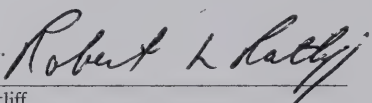
DATED this 27<sup>th</sup> day of February, 2002.

IPSCO Inc.

By :

Robert Ratliff,

Vice President and Chief Financial Officer



## Exhibit Index

Exhibit No.	Description	Page No.
1.	Annual Information Form of IPSCO Inc. dated 27 February 2002	
2.	Consolidated Financial Statements for the fiscal years ended 31 December 2001 and 2000 and including a U.S. GAAP reconciliation note, together with the auditors' report thereon	
3.	Management's Discussion and Analysis of Financial Condition and Results of Operations for 2001	
4.	Consent of Auditors	
5.	IPSCO Inc. 2001 Annual Report (certain portions of which are incorporated by reference into the Annual Information Form of IPSCO Inc. dated 27 February 2002)	
6.	Introducing IPSCO	
7.	Management Proxy Circular and Notice of Annual Meeting dated 27 February 2002	



27 February 2002

## IPSCO Inc. Annual Information Form

### INCORPORATION BY REFERENCE

Additional items comprising part of this Annual Information Form are disclosed in portions of the Company's:

- 2001 Annual Report, Management Proxy Circular, Introducing IPSCO, Management's Discussion and Analysis of Financial Condition and Results of Operations (M, D & A) for the fiscal year ended 31 December 2001, and
- the Audited Annual Consolidated Financial Statements for the fiscal year ended 31 December 2001 and the related notes.

Unless the context otherwise indicates, reference to "IPSCO" or the "Company" in this Annual Information Form refers to IPSCO Inc. and its wholly-owned or controlled subsidiaries or other entities. Except where otherwise noted, all share amounts give effect to the three-for-two split of the Company's common shares effective 9 March 1998. References to "dollars", "\$", and "US dollars" are to U.S. dollars and references to "CDN \$" are to Canadian dollars. Reference to the "capacity" of any of the Company's facilities not yet fully operational is management's belief of the facility's capacity in accordance with industry standards. Estimates of imports and other market statistics are derived from a variety of external sources including the American Iron and Steel Institute, the Canadian Steel Producers Association and certain government agencies and should not be relied on as being fully accurate but rather indicative of trends and relative sizes. When the United States and Canada are referred to together, the import figures include amounts coming into the two countries from other than the United States and Canada.

The portions of these documents described below are incorporated herein and form an integral part hereof.

	Annual Information Form	Annual Report	Proxy Circular	Introducing IPSCO	M, D & A	Audited Financial Statements
<b>Item 2, 2.1</b> Incorporation		Back Inside Cover		Page 4		
<b>Item 2, 2.2</b> Corporate Structure		Back Inside Cover				
<b>Item 3</b> General Development of the Business	See Below				Incorporated By Reference	
<b>Item 4, 4.1, (1) 1. a, b (i)</b> Product, Markets and Distribution Pages 8-12		Pages 6-7		Note 1		Page 29

	Annual Information Form	Annual Report	Proxy Circular	Introducing IPSCO	M, D & A	Audited Financial Statement
<b>Item 4, 4.1,</b> <b>(1) 2., 6.</b> Competitive Conditions	See Below	Pages 8-12 Pages 22-25		Page 4	Pages 21-22	
<b>Item 4, 4.1,</b> <b>(1) 4.</b> Raw Materials				Page 5		
<b>Item 4, 4.1,</b> <b>(1) 5.</b> Intangibles				Page 7		
<b>Item 4, 4.1,</b> <b>(1) 8.</b> Environmental					Page 22	
<b>Item 4, 4.1,</b> <b>(1) 9.</b> Number of Employees		Page 2				
<b>Item 4, 4.1,</b> <b>(1) 10.</b> Foreign Operations Risks		Pages 22-25				
<b>Item 5, 5.1</b> Financial Summary		Page 36				
<b>Item 5, 5.2</b> Dividends						Note 13 Page 41
<b>Item 6</b> MD&A					Entire document incorporated by reference	
<b>Item 7, 7.1</b> Exchanges		Page 35				
<b>Item 8, 8.1</b> Directors and Officers			Pages 2-3, 12-14			



## **AN INDUSTRY OVERVIEW**

The steel industry is highly cyclical in nature and sensitive to general economic conditions. The financial condition and results of operations of companies in the steel industry are generally affected by macroeconomic fluctuations in the U.S., Canadian and global economies. During the 1990 to 1992 downturn, substantial excess worldwide manufacturing capacity for steel products, combined with a worldwide economic slowdown, resulted in a substantial decrease in the demand for steel products, increased international competition and downward pressure on steel prices. Although demand for steel products recovered and the profitability of the industry improved between 1992 and 1997, in 1998 there was a major crisis in the North American steel industry as imported product began to enter at unprecedented levels. Following that time there were a number of anti-dumping and countervail cases prosecuted against offending nations but the tide was not stemmed. The penetration of imports has continued to affect the industry. As a result at the end of 2001 some 29 U.S. steel companies were in bankruptcy proceedings and very few North American flat rolled steel producers had profitable results for the year. In June 2001 President Bush gave instructions to initiate a safeguard action under s. 201 of the Trade Act of 1974. The U.S. International Trade Commission has determined that injury to the U.S. industry has been caused by imports in 12 of 33 different product lines that were considered. As a result, remedy recommendations were made by the ITC to President Bush. The President is expected to announce a remedy by early March 2002.

The global steel industry is highly competitive, capital intensive, and is experiencing intense overcapacity. The Company competes with foreign and domestic producers, including both integrated and mini-mill producers. Competition is based on price, quality, and the ability to meet customers' product specifications and delivery schedules. The North American economy consumes more steel than it did a decade ago and traditionally produces less steel than is consumed in its market, with the deficiency being supplied by imports. As a result, the North American steel industry has historically faced significant competition from foreign steel producers. Some non-market economy foreign steel producers are owned, controlled or subsidized by their governments and their decisions with respect to production, sales and exports may be influenced more by political and economic policy considerations than by prevailing market conditions. In addition, foreign steel producers may be subject to less restrictive regulatory and environmental regimes that could provide a cost advantage relative to North American producers. Some foreign steel producers have continued to sell steel in the North American markets despite decreasing profit margins, or losses.

## **IPSCO**

## **A COMPANY OVERVIEW**

IPSCO is a leading mini-mill producer of steel and steel products in North America. For the types of products the Company produces, management believes it is one of the lowest cost producers of high quality steel products. The Company manufactures steel in hot rolled coil and discrete plate forms, with a focus on wider, thicker and higher strength steel products, at its three mini-mills located at Regina, Saskatchewan (the "Regina Steelworks"), Montpelier, Iowa (the "Montpelier Steelworks") and Mobile, Alabama (the "Mobile Steelworks"). A wide range of further fabricated products is produced at ten locations in Canada and the United States (these products include energy related tubulars, standard pipe, hollow structural sections and cut-to-length steel). The Company's products are marketed in North America to customers in the manufacturing, energy, transportation, construction, heavy equipment and agricultural equipment industries and to distributors or further fabricators of steel products.

## BUSINESS STRATEGY

The Company's primary objective is to continue to profitably grow its business and to further enhance its position as a low cost, high quality producer. The key elements of the Company's strategy include the following:

Pursue Profitable Growth Opportunities – The Company has focused on projects that offer, among other things, increased geographic reach, lower costs, or the prospect of achieving a stronger competitive position in making its recent investment opportunity decisions. These opportunities center around wider, thicker, and higher strength steel products. Some initiatives undertaken include the following:

U.S. Steelworks – IPSCO believes that the Mobile and Montpelier Steelworks will strengthen the Company's position in the U.S. plate market and will be among the lowest cost producers of plate in North America. These facilities are the first in North America to utilize advanced mini-mill technology to produce low cost, high quality plate using continuous casting, steckel mill rolling and in-line processing. These facilities recycle steel scrap and produce discrete plate and wide hot rolled coil in plate and near plate thickness. The U.S. Gulf region, home of the new Mobile Steelworks, may be the fastest growing consumer region of plate in America and the newest facility should be able to displace substantial tonnages of imported steel coming into the region. Completion of these facilities puts IPSCO in a position such that, with normal market growth, it should not require further new steelmaking capacity.

Coil Processing Facilities – The Company has now installed temper leveling facilities at its Houston, Texas Coil Processing Facility, the Toronto, Ontario Coil Processing Facility, and the St. Paul, Minnesota Coil Processing Facility. These facilities compliment IPSCO's coil processing facilities in Regina, Saskatchewan and Surrey, British Columbia. The placement of these facilities in major steel fabricating areas allows the Company to offer shorter delivery times to mill customers. In addition, the installation of the temper leveling facilities allows the Company to offer material with a surface finish and degree of flatness not available from traditional cut-to-length operations.

High-Speed Pipemill – The Company is currently in the process of fine-tuning the Blytheville, Arkansas Pipemill. The mill is designed to produce standard pipe for plumbing and construction applications and line pipe, casing and tubing blanks for the oil and gas market. This pipemill has expanded the Company's reach in the U.S. and provided it with better access to the southern U.S. energy and construction markets in addition to providing an outlet for its steel. The Blytheville Pipemill complements production of tubular products from the Camanche, Iowa, Geneva, Nebraska, Red Deer and Calgary, Alberta and Regina pipemills.

Enhance Position as Low Cost, High Quality Producer – Management believes that the Company's per ton manufacturing costs for hot rolled coil in plate and near plate forms and discrete plate are among the lowest of Canadian and U.S. steel producers and that the Company's modern facilities will further enhance the Company's cost position relative to that of its competitors. In its plate production process the Company utilizes in-line processing and a steckel rolling mill which involves no cross-rolling of slabs and reduces handling time thereby improving throughput and lowering conversion costs.

Focus on Profits by Capitalizing on “Make or Buy” Option – Because IPSCO is not only a large producer of hot rolled coil and plate but also consumes large quantities of steel in its further fabricating operations, coil processing, and tubular products manufacturing, it often has the opportunity of either making or buying its steel needs. IPSCO attempts to maintain a situation whereby its sales of plate and coil to third parties plus its own needs for the fabricating operations exceed its steel production capacity. With such a “steel short” condition IPSCO can select for its own production the product mix that optimizes total profit, buying the balance from other steel producers. When demand falls off purchases can be reduced allowing IPSCO’s own facilities to continue to operate at higher, more efficient rates. By providing the Company’s value-added downstream operations with the “make or buy” option of sourcing steel from internal operations or from third-party steel producers, an internal discipline is created to accept only incremental orders for processed products that can be produced profitably using steel purchased at current market prices. For example, if a pipemaking facility can purchase lower cost, third-party steel that is appropriate for a customer application, then the Company can redirect its steelmaking capacity to produce higher margin hot rolled coil in plate and near plate forms and discrete plate products that can be sold into higher margin, niche markets. This strategy is intended to maximize overall Company profit. In addition, purchasing steel from other producers provides management with market intelligence into the level of quality, availability and service provided by its competitors.

Diversify Product Mix and Expand Geographically – A major focus of the Company is producing wider (up to 120 inches), thicker (up to 2 inches) and higher strength (up to 100,000 psi) plate products. Its facilities are also designed to efficiently roll lighter gauge material in coiled or discrete form. The Company’s pipemaking facilities specialize in producing tubular products in sizes ranging from 2 <sup>3/4</sup> to 80 inches in diameter and can vary their product mix between energy or non-energy applications depending on prevailing market conditions. The Houston and Toronto Coil Processing Facilities, the Blytheville Pipemill, and the Montpelier and Mobile Steelworks have allowed the Company to significantly expand its geographic reach. The Company believes that its flexible production capabilities and geographic diversity reduce its downside exposure in any particular geographic or industry market.



## NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements contained in this Annual Information Form, and in the documents incorporated or deemed to be incorporated by reference herein, constitute forward-looking statements. Any statements that express, or involve discussions as to, expectations, beliefs, plans, objectives, assumptions, future events or performance (often, but not always, indicated by the use of words or phrases such as “will likely result”, “are expected to”, “will continue to”, “anticipates”, “believes”, “expects”, “estimates”, “intends”, “plans”, “projects” and “outlook”) are not historical facts and may be forward-looking. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, levels of activity and achievements to differ materially from future results, levels of activity and achievements expressed or implied by such forward-looking statements. Such factors include, among others: general economic conditions, the demand for steel and the specific steel products of the Company, anticipated equipment performance in connection with the Mobile Steelworks, the progress of the lawsuit regarding the Mobile Steelworks, the availability of capital, the ability to properly and efficiently staff the Company’s manufacturing facilities, the level of steel imports into the Canadian and United States markets, economic conditions in steel exporting nations, trade sanction activities including the U.S. 201 action and any remedy that the President might impose in that matter, supply and demand for scrap steel and iron, alloys and other raw materials, supply, demand, and pricing for the electricity and natural gas used by the Company, changes in environmental and other regulations and the magnitude of future environmental expenditures, inherent uncertainties in the development and performance of new or modified equipment or technologies, North American interest rates, exchange rates and the level of demand outside of North America for steel and steel products. As a result of the foregoing and other factors, no assurance can be given as to any such future results, levels of activity or achievements and neither the Company nor any other person assumes responsibility for the accuracy and completeness of these forward-looking statements. Any forward-looking statements contained herein speak solely as of the date on which such statements are made, and the Company undertakes no obligation to update forward-looking statements to reflect events or circumstances after the date on which such statements were made or to reflect the occurrence of unanticipated events.

## ADDITIONAL INFORMATION

The rights of the holders of common shares of the Company are subject to the provisions of a Shareholder Rights Agreement dated 14 March 1990, as amended 20 April 1995 and 24 April 1998 and 2 May 2001 between the Company and Computershare Canada.

The Company will provide to any person, upon request to the Secretary of the Company:

- (a) when the securities of the Company are in the course of a distribution under a preliminary short form prospectus or a short form prospectus,
  - (i) one copy of the Annual Information Form of the Company, together with one copy of any document, or the pertinent pages of any document, incorporated by reference in the Annual Information Form;
  - (ii) one copy of the comparative financial statements of the Company for its most recently completed financial year for which financial statements have been filed together with the accompanying report of the auditor and one copy of the most recent interim financial statements of the Company that have been filed, if any, subsequent to the financial statements for its most recently completed financial year;
  - (iii) one copy of the information circular of the Company in respect of its most recent annual meeting of shareholders that involved the election of directors or one copy of any filing prepared instead of that information circular, as appropriate; and
  - (iv) one copy of any other documents that are incorporated by reference into the preliminary short form prospectus or the short form prospectus and are not required to be provided under clauses (i), (ii) or (iii);

or
- (b) at any other time, one copy of any documents referred to in (a) (i), (ii), and (iii) above, provided that the Company may require the payment of a reasonable charge if the request is made by a person or company who is not a security holder of the Company.

Additional information in respect of directors' and executive officers' remuneration and indebtedness, principal holders of the Company's securities and options to purchase securities is contained on pages 2 and 8 through 13 of the Company's Management Proxy Circular dated 27 February 2002 and additional information is provided in the Company's consolidated financial statements for the fiscal year ended 31 December 2001. Copies of these documents may be obtained upon request from the Assistant Secretary of the Company, 650 Warrenville Road, Suite 500, Lisle, Illinois 60532.

**For further information regarding the Company contact:**

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# **MD&A • 2001**

*Management's Discussion & Analysis  
and Audited Financial Statements*

**IPSCO INC.**

**2001**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS**

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The following commentary should be read in conjunction with the consolidated financial statements of the Company. Certain statements in this commentary constitute "forward-looking statements". (See "Note Regarding Forward-Looking Statements" on the inside front cover of the Company's 2001 Annual Report).

## GENERAL

IPSCO Inc. (the "Company" or "IPSCO") is a producer of steel products. In this document unless the context otherwise indicates, references to the Company or IPSCO include both IPSCO Inc., and its wholly-owned or controlled subsidiaries.

Market estimates, consumption figures and other measures of economic and commercial activity (other than Company specific information) used in this report are based on an analysis of reports from a variety of external sources and should be interpreted only as broad indicators.

Effective 1 January 1999, IPSCO began reporting its financial results in United States dollars (see Note 2 "Reporting Currency" of the financial statements). The decision to change the currency of its financial statements has been made to reflect the Company's growing American presence. Approximately 83 percent of the net book value of the Company's capital assets is located in the United States.

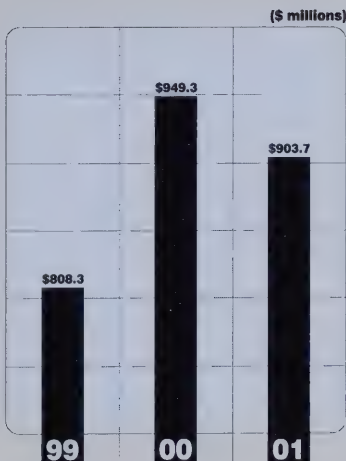
References herein to "\$", "U.S. \$", or "dollars" are to United States dollars and references to "CDN \$" are to Canadian dollars.

## RESULTS OF OPERATIONS

**YEAR ENDED 31 DECEMBER 2001 COMPARED WITH YEARS ENDED 31 DECEMBER 2000 AND 31 DECEMBER 1999.**

### Sales

#### Summary



Sales revenues decreased by five percent to \$903.7 million in 2001 after increasing by 17 percent to \$949.3 million in 2000, from \$808.3 million in 1999.

#### 2001 Compared to 2000

IPSCO manages its overall business to maximize total dollar profit available to it. This is done by utilizing internal steelmaking capacity and by augmenting its own steel production with outside purchases in order to meet sales opportunities for both its steel mill products and further fabricated items. A drop in the sales of one particular product line may indicate a fall in demand or a decision by IPSCO to deliberately sell less of that product in order to load its facilities with a more profitable mix. Such decisions are taken on the basis of marginal production costs and revenues, freight rates on raw steel movements between its plants, and the cost of delivering products to customers, tempered by longer term strategic requirements. In reading individual product commentaries the shareholder should bear in mind that they reflect the result of such profit maximization activities.

For a fifth consecutive year record tonnage shipments were recorded, amounting to 2,435,100 tons\* or nine percent higher than a year earlier. This achievement took place in a year when a manufacturing recession saw North American apparent steel consumption fall by 13 percent.

Despite higher tonnages, revenues at \$931 million, including \$28 million in revenue during the Mobile Steelworks start-up, were actually 1.9 percent lower than in 2000, reflecting the price erosion that resulted from oversupply conditions largely attributed to dumping of unfairly priced imported steel.

The average unit selling price declined by just under ten percent from \$421 per ton in the prior year to \$380 per ton but in the last quarter dropped to \$366 per ton, partly due to product mix (a higher percentage of steel mill products as compared to further fabricated items) but more generally indicative of severe price competition.

Shipments to United States customers reached 1,570,300 tons, almost 65 percent of the total, while Canadian based customers accounted for 864,800 tons, about 35 percent. Despite growth in the Company's total shipments the Canadian figure was seven percent below that of 2000, indicating that the U.S. market provided the growth in sales.

### **Steel Mill Products**

Shipments of 1,071,300 tons of these products (discrete plate and hot rolled coil) surpassed those of a year earlier by 14 percent, with U.S. destined tonnage increasing by 21 percent while Canadian tons fell by seven percent. In the United States, unlike 2000 when equipment problems at the Montpelier Steelworks limited IPSCO's ability to service the market, the coming on stream of the new Mobile Steelworks meant that order receipt to delivery times became shorter and therefore more competitive in the second half, resulting in higher sales.

The average unit selling price received by IPSCO for these products dropped almost 15 percent on a year-over-year basis as the result of supply-demand imbalances caused by the dumping mentioned above. The first quarter of the year saw lower price realizations than the closing quarter of 2000, followed by further erosion in the second quarter, a relatively flat third quarter, followed by an even more significant drop in the fourth.

IPSCO estimates that its market share in the sizes and grades of steel mill products that it sells to third parties (including material further fabricated at its coil processing facilities) reached about four percent of the combined U.S. and Canadian markets in 2001.

### **Further Fabricated Products**

Some 56 percent of the Company's tonnage shipments in 2001 were in further fabricated form – products that underwent further manufacturing after leaving the steel mills and before being shipped to IPSCO's customers. This number is significant in that IPSCO was able to maintain a desired mix of value added products, despite significant gains in steel mill products shipments.

IPSCO's further fabricated products undergo one of two processes, the flattening and cutting-to-length of hot rolled coil at one of the Company's coil processing facilities or the conversion of coil to tubular products at one of IPSCO's many pipe mills. In either case, by adding value to the steel mill product prior to its sale, the overall profitability is enhanced. Further, because a number of these processes often involve a degree of customization to suit a particular

\* All sales data in this section is inclusive of steel shipped during the start-up of the Mobile Steelworks, which began early in the second quarter and ended 30 September 2001. For accounting purposes, all expenses recorded during the commissioning period or start-up, net of sales during the period, were capitalized to project costs and therefore the associated sales revenues were not included in the revenue shown on the financial statements.



customer they can be less susceptible to unfair price competition from imported dumped steel that is typically of the mass-produced variety.

In tonnage terms further fabricated product sales rose six percent from 2000 levels to 1,363,800 tons. Shipments to U.S. customers of these products rose 20 percent while those to Canadian customers fell by seven percent.

Cut-to-length steel shipments were 489,700 tons of the total, 13 percent higher than a year earlier. Canadian destined shipments were virtually identical to 2000 levels while U.S. shipments rose a hefty 21 percent. IPSCO's coil processing facilities in Houston, St. Paul, and Toronto all make temper leveled cut-to-length products which offer superior qualities such as flatness, surface, and higher strengths without furnace treatment and which are gaining market share over conventional cut-to-length steel products. The average unit selling price fell nine percent on a year-over-year basis. Although cut-to-length products tend to correlate in absolute price per unit quite closely with the price of hot rolled coil, given their value added characteristics, the downward erosion can be less severe on a percentage basis.

For the second year in a row tubular products tonnage rose from 855,000 tons to 874,100 tons (in 2000 the increase was a nominal one percent over the prior year) in the face of a difficult market. This was possible because of IPSCO's diverse product line and ability to address product mix issues based on market conditions. Weak sales of large diameter oil and gas transmission pipe and non-energy tubulars in Canada overcame a stronger market for oil country tubulars and small diameter line pipe, resulting in an overall nine percent drop in shipments to Canadian customers. On the other hand U.S. destined tonnage rose 19 percent with higher sales of oil country and small diameter line pipe as well as non-energy tubulars overcoming an unchanged level of large diameter tonnage.

Total large diameter tonnage fell 29 percent to 145,900 tons from 206,500 tons. There were no major orders requiring oil or gas transmission pipe 16 inches or greater in diameter and, consequently, the tonnages went to smaller endeavours. On the other hand the tonnage of oil country tubulars and small diameter line pipe rose 12 percent from 469,900 tons to 525,700 as the average number of rigs drilling rose on a year-over-year basis from 916 to 1,155 in the U.S. and from 383 to 392 in Canada. The normal pattern of sales of these products failed to materialize in Canada as weather conditions in the fourth quarter proved to be less than conducive to a high drilling rate. Tonnage shipments of non-energy tubulars rose to 202,500 tons from 178,600 tons or 13 percent primarily because of higher sales of standard pipe in the United States. Shipments of hollow structurals in both countries and standard pipe in Canada decreased. IPSCO estimates that its market share in North America for tubular products within the size and grade ranges that it manufactures was eight percent in 2001.

The average unit selling price of tubulars fell by just under five percent, largely due to substantial price erosion in non-energy tubular products. These products are less sophisticated than higher value added energy tubulars and therefore demonstrate price volatility more or less in line with steel mill products. However, the continued successful penetration of these markets plays an important role in providing diversity and flexibility to deal with market conditions, as mentioned above.

## **2000 Compared to 1999**

At 2,233,200 tons shipments were 22 percent higher than in 1999, the fifth time in as many years that a year-over-year increase was reported. IPSCO's sales growth was substantially greater than an estimated five percent increase in North American apparent steel consumption and even further ahead of the approximate four percent growth exhibited by domestic steel producers.

The North American market for steel started out 2000 fairly buoyant, with demand pushed upward by a briskly growing economy. Prices improved continuously until mid-way through the second quarter when various segments started to be affected by a resurgence of imports that caused a demand/supply imbalance, price instability, and a fall-off in orders from those who discovered they were overstocked.

The average unit selling price fell to \$421 per ton from \$434 in 1999, but with prices weakening from part way through the second quarter onwards, the fourth quarter averaged even lower at \$414 per ton.

For the first time in its history IPSCO's tonnage sales to United States customers comprised over half the total, reaching 1,302,800 tons or 58 percent, while Canadian based customers accounted for the remaining 42 percent.

### **Steel Mill Products**

At 943,800 tons shipments exceeded those of 1999 by 38 percent with the increased volume coming almost precisely proportionately from the American and Canadian markets.

IPSCO's sales of hot rolled coil and discrete plate continued to be dampened by equipment problems at its Montpelier Steelworks. Although improved over 1999 these problems affected throughput rates and product yields, making it both uneconomic to produce certain grades and difficult to service some customers in need of reliable deliveries.

IPSCO estimates that in the size ranges and grades of hot rolled coil and discrete plate (including material further fabricated at its coil processing facilities) that it sells to third parties, its North American market share was around three percent in 2000.

Thanks to a strengthening of prices in the first five months of the year IPSCO garnered a year-over-year average unit price increase for steel mill products of about two and one half percent but this disguised a four percent drop on a fourth quarter to fourth quarter basis.

### **Further Fabricated Products**

Almost 58 percent of IPSCO's tonnage sales in the year were in the form of products that underwent further manufacturing steps after leaving the steel mills and before being shipped to the company's customers.

The further fabrication involved one of two processes, the flattening and cutting to length of hot rolled coil at one of IPSCO's coil processing facilities or the conversion of coil to tubular products at one of the company's many pipe mills. In each case, by adding value prior to the sale, the overall profitability of the sale is increased. Also, because these processes sometimes involve a degree of customization to suit a particular customer they can be less susceptible to unfair price competition from imported dumped steel that tends to be of the mass-produced variety.

In tonnage terms the sales of further fabricated products amounted to 1,289,400 tons, 12 percent higher than the year before.

Cut-to-length steel shipments comprised 434,400 tons of the total, an increase of 44 percent over 1999 when the figure was 300,800 tons. The rapid growth in such sales by IPSCO was for two reasons, the enhanced geographic coverage of the company's coil processing facilities (units at Houston and Toronto saw their first full calendar years of operation after commissioning) and the growing popularity of the enhanced surface finishes and higher strengths IPSCO is providing to the market place, especially from its temper leveling mills now located at three of its five coil processing locations. The average unit selling price was up four percent thanks to the same short-term price improvement mentioned under Steel Mill Products. On a fourth quarter to fourth quarter comparison unit prices did not drop, as might have been expected, but were flat, reflecting an inherently better valued product mix due to IPSCO's temper leveling capability. Statistics for steel consumption in the U.S. and Canada do not separate the output of coil processing operations from other types of flat rolled steel. To estimate its market share IPSCO adds these sales with its steel mill products sales to develop a combined market share estimate of around three percent in 2000.

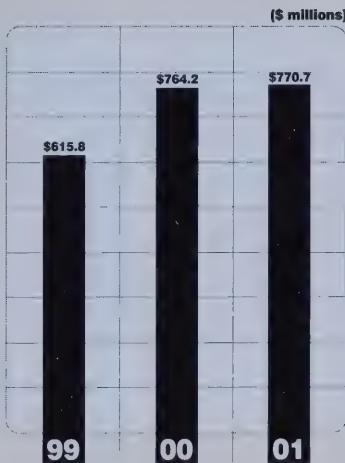
Shipments of tubular products rose less than one percent from the previous year's 847,200 tons to 855,000 tons. This reflected a drop in large diameter pipe sales that was just barely made up by increases in sales of smaller diameter tubular products for energy and non-energy applications.

The drop in large diameter pipe, chiefly used for natural gas transmission, was from 391,800 tons to 206,500 tons, or 47 percent, as many large expansion projects were completed. While pipeline construction activity fell the level of drilling for oil and gas increased substantially in reaction to higher energy prices with the average number of drilling rigs in the United States reaching 916, as compared to 622 in 1999, and in Canada the number rose from 272 to 383 on average (the level of Canadian activity failed to meet even greater heights as wet summer and fall weather impeded access to many drilling areas). The result was that sales of oil and gas well casing and tubing, and small diameter line pipe used for well hookups rose 62 percent to 469,900 tons from 290,900 tons a year earlier. Tubular product sales tonnage for other than energy applications rose nine percent. IPSCO estimates that its market share for those North American tubular products that it manufactures was about eight percent in 2000.

Average unit selling prices for tubulars fell one percent with a significant drop in large diameter prices, chiefly a product mix issue, almost offset by increases in the other lines, particularly oil country tubulars in the United States.

## Cost of Sales

### Summary



Cost of sales increased to \$770.7 million after increasing by 24 percent to \$764.2 million in 2000 from \$615.8 million in 1999. Gross margin (sales less cost of sales and amortization of capital assets) as a percentage of sales was 10.6 percent, down from 15.8 percent in 2000 and 20.1 percent in 1999. This significant decline over the past two years primarily reflects the detrimental effects of price erosion caused by unfairly priced imported steel. In addition, gross margin dropped 1.3 percent because the Mobile Steelworks operated below capacity.

### 2001 Compared to 2000

Operating levels for IPSCO's facilities are established from time to time in order to maximize total company profits rather than individual unit profitability. In the case of the Company's three operating steelworks in 2001 (Mobile exited the commissioning stage effective 01 October 2001) there is a substantial overlap in the types and sizes of steel mill products each can produce. Because freight is a substantial cost item, the choice of facility at which a given order is to be produced is often based on the geographic location of the customer. Other products tend to be unique to

one of the steelworks, wide coil and plate to Montpelier and Mobile, narrow alloy plate to Regina, for instance. The operating level for a further fabricating operation is determined by whether or not feedstock at a low enough cost is available such that the facility can generate an incremental financial return. Given that IPSCO's third party sales of steel mill products combined with the steel consumption of its further fabricating operations can exceed the capacity of its own steelworks, the operating level of further fabricating operations would be determined by whether or not purchased steel was available at a suitable price. Thus plant operating levels are constantly adjusted to reflect external economic circumstances.



## **Raw Materials**

In 2001 a total of \$395 million dollars was spent on major raw materials and consumables for the Company's three steelworks, up by 13 percent from the \$351 million expended in the previous year. Included in the figure are steel scrap, pig iron, alloy materials, carbon electrodes, oxygen, refractories, limestone, natural gas, and electricity. The startup of the Mobile Steelworks, with the resultant increase in company-wide steel production, as well as higher unit natural gas prices, exceeded the impact of lower unit scrap costs.

During the year IPSCO recycled some 2.6 million tons of purchased scrap, the principal raw material for its steelmaking, at an average cost per ton that was about ten percent lower than the previous year. IPSCO's 91 percent owned General Scrap Partnership and fully owned IPSCO Direct Inc., an Alberta scrap collection company, provided some 17 percent of the Company's overall needs.

Energy constitutes a significant portion of an electric furnace steelmaker's costs. In 2001 IPSCO's cost per kilowatt hour edged up just slightly more than three percent as the result of escalation clauses in long term supply contracts, and thus had a negligible impact on the bottom line. Natural gas costs per millions of British Thermal Units rose by over 50 percent due to higher costs in the earlier part of the year resulting in additional cost of sales of \$10 million. These comparisons exclude Mobile, which was not operating in 2000.

IPSCO's further fabricating operations consumed 389,900 tons of hot rolled coil purchased from third parties, supplementing the Company's own production. This was 27 percent below the 534,200 tons used a year earlier. The principal reasons for the reduction were the softer markets and new capacity to source internally at Mobile.

## **Steelmaking**

Liquid steel production at 2,414,500 tons exceeded the previous year by 19 percent, reflecting the startup of the new Mobile Steelworks.

Production at the Regina Steelworks reached 1,068,400 liquid tons, just under three percent higher than 2000. Capacity utilization was 94 percent.

The Montpelier Steelworks recorded production of 967,100 tons of liquid steel, just slightly more than one percent below the year earlier figure. This translated into an effective utilization rate of 70 percent as the facility continued to be plagued by equipment malfunctions and breakdowns. The Company believes most defects were corrected during a 17-day shutdown of the Steelworks that took place in October 2001.

The new Mobile Steelworks produced 379,000 tons of liquid steel after initial production began at the end of the first quarter. Although later than provided for in the terms of the overall construction and erection contract, the startup occurred 20 months from the initial groundbreaking as compared to the Montpelier experience of 43 months. While the first nine months of operation saw the typical issues involved in getting a steel mill of its size up and running, management considers it a success. By the fourth quarter of the year the facility was operating at 50 percent effective capacity in terms of liquid steel output, a measurement that was heavily influenced by product mix and yield. This percentage of prime product was significantly less than should be achieved after the operation is more mature.

The number of man hours required to produce a ton of finished steel in coil or discrete plate form averaged 0.75 for Montpelier and Regina combined, somewhat higher than the 0.70 reported for 2000, chiefly as the result of the decision to perform certain maintenance functions in-house at Montpelier. Previously these had been undertaken by outside contractors whose manpower statistics are not reported to IPSCO.

## **Tubular Operations**

IPSCO pipe mills produced a record 802,600 tons, two percent higher than a year earlier, despite continuing weak markets for large diameter gas transmission pipe and the negative impact of a slowing economy on the demand for non-energy tubulars.

Average capacity utilization at IPSCO's small diameter pipe mills in Canada rose to 70 from 68 percent while production tonnage rose seven percent. In the United States average utilization fell slightly from 68 to 67 percent but improved efficiencies at the Blytheville, Arkansas pipeworks and the Camanche, Iowa pipeworks resulted in an overall increase in tonnage output of ten percent.

The mid-size electric resistance weld mill in Regina saw a mere 30 percent utilization, even lower than the 49 percent recorded a year earlier, the result of a dearth of pipeline projects in the 16 to 24 inch diameter range. Utilization of the large diameter spiral mills in Regina grew to 57 from 34 percent. However, the increase in utilization was disproportionately higher than the increase in output of only 14 percent due to a less favorable product mix.

The man-hours required to convert finished steel to one ton of finished pipe averaged 2.52. This compares to 2.43 man-hours in 2000 and reflects a more labour intensive product mix rather than a decrease in efficiency.

## **Coil Processing**

A total of 545,800 tons were handled by IPSCO's coil processing facilities, higher than 2000 by 11 percent when the amount was 490,400 tons (the figure includes a small amount of discrete plate handled as mill depot stock). It is typical in periods of falling steel demand for customers to insist on higher and higher quality. IPSCO's coil processing facilities include three temper leveling mills permitting superior thickness, flatness control and surface quality features prized by end-users.

## **2000 Compared to 1999**

Operating levels for IPSCO's facilities are established from time to time in order to maximize total company profits rather than individual unit profitability. In the case of the Company's two operating steelworks in 2000 (a third was under construction) there is a substantial overlap in the types and sizes of steel mill products each can produce. Because freight is a substantial cost item, the choice of facility at which a given order is to be produced is often based on the geographic location of the customer. Other products tend to be unique to one of the steelworks, wide coil and plate to Montpelier, narrow alloy plate to Regina, for instance. The operating level for a further fabricating operation is determined by whether or not feedstock at a low enough cost is available such that the facility can generate an incremental financial return. Given that IPSCO's third party sales of steel mill products combined with the steel consumption of its further fabricating operations often exceeds the capacity of its own steelworks, the operating level of further fabricating operations would be determined by whether or not purchased steel was available at a suitable price. Thus plant operating levels are constantly adjusted to reflect external economic circumstances.

## **Raw Materials**

The year 2000 saw IPSCO purchase some \$351 million in raw materials and consumables including steel scrap, pig iron, alloy materials, carbon electrodes, oxygen, refractories, limestone, natural gas, and electricity. Materials used more or less uniquely by the steel industry saw limited upward price pressures. Unit cost of electricity for the Company's steelworks, whose steelmaking furnaces are electric, was virtually unchanged based on long-term contracts. Natural gas used as an assist to the electric furnaces and as the main source of energy for subsequent steel heating operations was a different matter. Unit gas prices paid by IPSCO plants went up almost 48 percent year-over-year. On the same basis the cost of a ton of steel increased \$3 due to higher natural gas prices.

A total of 2.1 million tons of steel scrap and pig iron were purchased in the U.S. and Canada at an average cost per ton of four percent below that of 1999. Some 19 percent of IPSCO's needs were provided by the 81 percent IPSCO-owned General Scrap Partnership, a scrap collecting and processing business operating in Western Canada and North Dakota, and wholly-owned IPSCO Direct Inc., an Alberta scrap collection company.

Hot rolled coil consumed by the company's further fabricating facilities, supplementing IPSCO's own steelmaking capability, amounted to 534,200 tons, more than double the 217,000 ton figure of a year earlier.

### **Steelmaking**

Record liquid steel production of 2,020,900 tons was 13 percent higher than 1999.

A total of 1,040,800 tons of liquid steel was produced at the Regina Steelworks, a marginal three percent lower than the 1,073,100 tons of the previous year. Capacity utilization was 93 percent, somewhat below the 95 percent of 1999 as a scheduled eight-day shutdown was taken to facilitate some capital improvements and major maintenance. The output of steel mill products was 978,900 tons.

Liquid steel production at the Montpelier Steelworks reached 980,100 tons, with finished steel production of 925,600 tons. Impressively 38 and 40 percent respectively higher than the figures for 1999, the production levels were substantially below that required to meet the rated capacity of 1,250,000 product tons as the operation continued to be hampered by equipment problems which were the subject of a lawsuit with the general contractor and equipment supplier for the plant. Among myriad problems one of the most severe from a capacity point of view was with the slab reheat furnace which had to be shut down several times during the year and is expected to undergo a shutdown for major modifications in 2001. Effective utilization of 73 percent, up from 52 percent a year earlier, is still far less than a mid-nineties figure experienced at the Regina Steelworks.

The number of man hours required to produce a finished ton of steel mill product at Regina, a weighted average for coil and discrete plate, was 0.81, up from 0.78 a year earlier. The comparable figure for Montpelier was 0.59 man hours, down from 0.75 in 1999. The average for both steelworks was 0.70 man hours per ton.

### **Tubular Production**

In 1999 the demand for large diameter gas transmission pipe was high due to the construction of a 2,320 mile long pipeline from Alberta to Chicago while simultaneously low energy prices dampened the need for smaller tubular products used in oil and gas wells and gathering systems. In contrast 2000 saw pipeline construction at a very low level while drilling, spurred on by high energy prices, increased impressively, driving up activity at IPSCO's smaller diameter pipe facilities. Despite lower demand for large diameter product the company's pipe mills set a new production record for tubular products at 786,700 tons.

Capacity utilization at the company's small diameter pipe facilities in Canada averaged 68 percent, up from 50 percent a year earlier. In the U.S. the three small diameter operations also averaged 68 percent, held back only because the Blytheville plant was not fully crewed, pending the resolution of certain equipment problems.

The mid-size electric resistance weld mill in Regina saw 49 percent utilization, double that of 1999. The large diameter spiral mill started tapering off in the first quarter and saw virtually no load in the last half of the year, averaging 34 percent utilization.

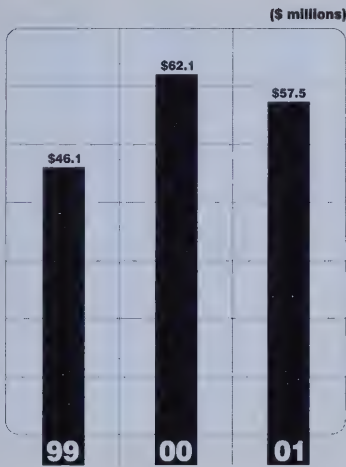
Tubular operations required 2.43 man hours to produce one ton of finished product from one ton of steel, about 15 percent higher than 1999 due solely to the product mix which saw a higher proportion of labor intensive small diameter pipe than the previous year.



## Coil Processing

The company's coil processing operations handled a total of 490,400 tons up 37 percent from the year earlier 358,000 tons. The numbers include a small amount of discrete plate handled as mill depot stocks. Substantial gains were made at all five of the company's coil processing locations except for St. Paul where despite production time lost due to a shutdown to install a temper mill the output was maintained at just slightly over the 1999 figure. IPSCO's coil processing facilities convert hot rolled coil of up to 96 inches in width to individual pieces typically from 10 to in excess of 40 feet in length in plate and heavy sheet thicknesses. Such processing can be more economic than the production of discrete plate for smaller sized orders.

## Selling, Research and Administration Expenses



Selling, research and administration expenses decreased seven percent in 2001 to \$57.5 million from the \$62.1 million reported in the prior year.

Significant costs incurred in 2000 for research and development and for legal and related expenses associated with the Mannesmann Demag lawsuit were not repeated in 2001. These decreases were partially offset by a \$4 million increase in allowances for bad debts and expenses incurred by the Mobile Steelworks which were expensed subsequent to the end of its commissioning period ending 30 September 2001. In total, selling, research and administration expenses represent six percent of consolidated sales in 2001, compared to seven percent in 2000.

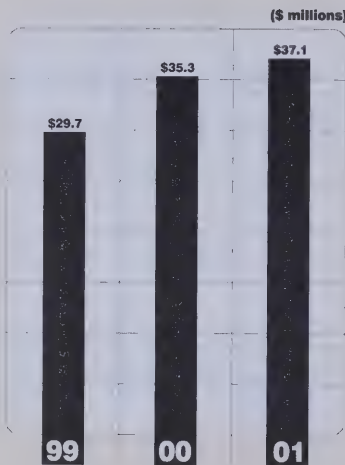
## Interest on Long-Term Debt



Interest on long-term debt expensed decreased by four percent to \$6.6 million in 2001 after decreasing by 64 percent to \$6.9 million in the prior year.

The decrease in interest on long-term debt expensed in 2001 results from the increase in interest capitalized on the Mobile Steelworks more than offsetting increased interest incurred (refer to "Capital Structure"). Interest on long-term debt expensed in 2000 also decreased due to the increase in interest that was capitalized for the Mobile Steelworks.

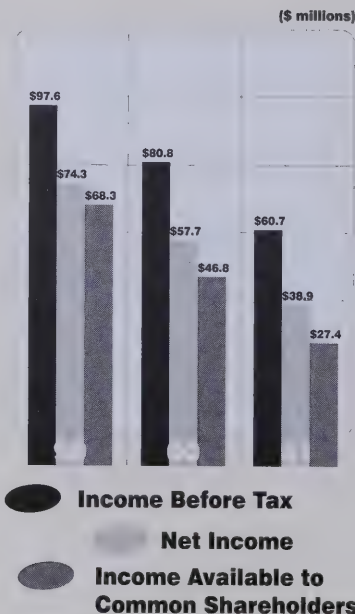
## Amortization of Capital Assets



Amortization of capital assets increased by five percent to \$37.1 million in 2001 from \$35.3 million in 2000 as reduced amortization resulting from the sale and leaseback of production facilities during 2000 and 2001 was offset by amortization both of the Mobile Steelworks for the first time in the fourth quarter of 2001 and of other assets as they were placed into service.

The increase from \$29.7 million in 1999 to \$35.3 million in 2000 was primarily due to a full year's depreciation on projects completed during 1999.

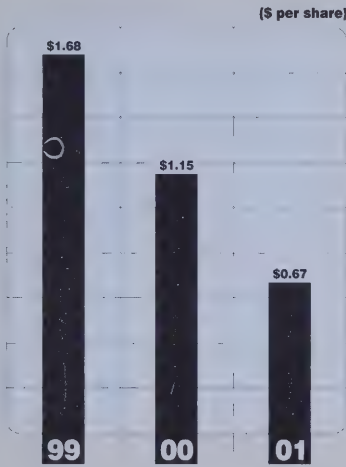
## Income Before Income Taxes, Net Income and Net Income Available to Common Shareholders



Income before income taxes decreased by 25 percent (61 percent excluding "non-recurring" items) to \$60.7 million in 2001 as a result of the changes described in the previous sections. This total includes two non-recurring transactions during 2001 which are listed separately in the Consolidated Statements of Income and Retained Earnings on page 27. The Company settled a lawsuit against the turnkey contractor of the Montpelier Steelworks for \$49 million. A total of \$39 million represented claims for lost business and reimbursement of legal costs and was recorded to income, and the \$10 million balance was used to cover the costs of capital asset improvements associated with the 17-day shutdown mentioned above in "Cost of Sales". This was partially offset by a non-cash charge of \$10 million to adjust the carrying value of assets held for sale or redeployment. Income before income taxes decreased 17 percent to \$80.8 million in 2000 from \$97.6 million in 1999.

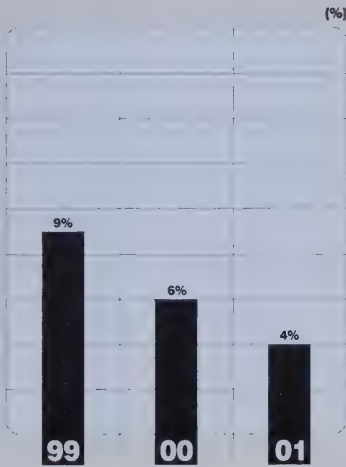
Consequently, net income decreased by 33 percent (65 percent excluding non-recurring items) to \$38.9 million in 2001 after having decreased 22 percent to \$57.7 million in 2000. Net income available to common shareholders declined 42 percent (81 percent excluding non-recurring items) to \$27.4 million in 2001 from \$46.8 million in 2000, reflecting the lower net income and higher interest on the subordinated notes.

## Basic Earnings Per Share



Basic earnings per share fell by 42 percent to \$0.67 in 2001 after having fallen 32 percent to \$1.15 in 2000 from \$1.68 in 1999. Net non-recurring items represented \$0.45 of the \$0.67 reported for 2001.

## Return on Common Shareholders' Equity



The return on common shareholders' equity was four percent in 2001, down from six percent in 2000 and nine percent in 1999



## Quarterly Results

Results by quarter for 2001, 2000, and 1999 were as follows:

	2001	2000	1999
<b>Tons Shipped</b> (including Mobile shipments during commissioning)	<b>(thousands of tons)</b>		
1st Quarter	583.6	590.4	406.5
2nd Quarter	587.7	559.0	421.3
3rd Quarter	659.0	524.3	490.0
4th Quarter	<u>604.8</u>	<u>559.5</u>	<u>515.1</u>
Total	<u>2,435.1</u>	<u>2,233.2</u>	<u>1,832.9</u>
<b>Sales</b> (excluding Mobile sales during commission)	<b>(millions of dollars)</b>		
1st Quarter	\$ 232.5	\$ 257.8	\$ 180.0
2nd Quarter	219.6	236.6	185.1
3rd Quarter	229.1	223.0	212.7
4th Quarter	<u>222.5</u>	<u>231.9</u>	<u>230.5</u>
Total	<u>\$ 903.7</u>	<u>\$ 949.3</u>	<u>\$ 808.3</u>
<b>Net Income (Loss) Available to Common Shareholders</b>	<b>(millions of dollars)</b>		
1st Quarter	\$ 5.7	\$ 15.2	\$ 14.8
2nd Quarter	28.7	12.3	14.6
3rd Quarter	8.5	9.4	19.0
4th Quarter	<u>(15.5)</u>	<u>9.9</u>	<u>19.9</u>
Total	<u>\$ 27.4</u>	<u>\$ 46.8</u>	<u>\$ 68.3</u>

Basic Earnings Per Common Share	2001	2000	1999
1st Quarter	\$ 0.14	\$ 0.37	\$ 0.36
2nd Quarter	0.70	0.30	0.36
3rd Quarter	0.21	0.23	0.47
4th Quarter	(0.38)	0.24	0.49
Year	0.67	1.15	1.68

#### Diluted Earnings Per Common Share

1st Quarter	\$ 0.14	\$ 0.33	\$ 0.35
2nd Quarter	0.57	0.27	0.35
3rd Quarter	0.20	0.20	0.44
4th Quarter	(0.38)	0.20	0.45
Year	0.66	0.91	1.58

Note: The Company adopted the recommendations of revised section 3500 of the Canadian Institute of Chartered Accountants handbook which was effective 01 January 2001 with retroactive application. Accordingly, all per share amounts for periods prior to 2001 have been restated to reflect use of this standard.

## **Analysis of IPSCO's Total Capitalization**

For the year, the return on shareholders' equity decreased to four percent from six percent in 2000. This level of return is higher than the 2001 inflation rates of 0.7 percent in Canada and 1.6 percent in the United States. Inflation rates in Canada and the United States in 2000 were 3.2 percent and 3.4 percent respectively.

During 2001, IPSCO increased borrowings under its committed \$200 million bank line by \$68 million for a total outstanding balance of \$128 million at 31 December 2001. This contributed to the net increase in long-term debt to \$386.8 million as at 31 December 2001 from \$343.8 million in 2000. An additional \$35 million was drawn on a \$50 million demand facility at year end.

In 2000 the Company arranged long-term debt financing by way of tax-exempt industrial development revenue bonds in the amount of \$10 million. In addition, draws by the Company of \$60 million under its revolving term credit facility contributed to a net increase in long-term debt from \$297.5 million as at 31 December 1999.

The issuance in 2000 of the remaining \$90 million of Junior Subordinated Notes under the Company's \$100 million facility increased the Company's shareholders' equity by that amount.



## **SIGNIFICANT DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP)**

IPSCO, a Canadian company, uses United States dollars as the basis of reporting and follows Canadian GAAP in reporting financial results. The United States/Canadian GAAP differences generally relate to timing issues for expense recognition. The 2001 differences were more significant than normal primarily because of the treatment of major transactions associated with start-up and commissioning of the new Mobile Steelworks. The differences in the reported results arising from using United States as opposed to Canadian GAAP are summarized in note 21 to the 2001 financial statements.

## **LIQUIDITY AND CAPITAL RESOURCES**

### **Cash Flows**

Working capital derived from operations in 2001 was \$57.8 million as compared to \$92.2 million for the year ended 31 December 2000. Non-cash operating working capital decreased by \$50.5 million in 2001 while an increase of \$69.4 million was recorded in the prior year. This resulted in a net of \$108.3 million being generated from operating activities as compared to \$22.8 million in 2000. The primary reason for the decrease in non-cash operating working capital was due to decreased sales levels and recovery of the prior year's income tax over-instalments. In the prior year higher sales levels plus revenue generated from the start-up of new facilities were the main reasons for the increase in non-cash operating working capital.

The Company raised \$15.0 million from the sale and leaseback of equipment at its Houston coil processing facility during 2001. A total of \$158 million was raised during 2000, \$150.0 million from the sale and leaseback of the melt shop and caster equipment at the Montpelier Steelworks and \$8 million for the temper mill at the St. Paul coil processing facility. The Company's commitments under these sale and leaseback transactions are accounted for as operating leases, accordingly, the contractual obligations are included in the operating lease section of the commitments table which follows. Also in the prior year the company raised \$89.8 million, net of issuance costs, through the issuance of a Junior Subordinated Note and \$10.0 million from the sale of tax-exempt industrial revenue bonds. Advances under the Company's revolving term credit facility totalled \$128.0 million at year-end after increasing by \$68.0 million during 2001.

Interest paid on the Junior Subordinated Notes in 2001 amounted to \$8.5 million compared to \$3.2 million the previous year. Dividends to holders of common shares and Series 1 preferred shares amounted to \$11.2 million and \$5.3 million respectively compared to \$13.7 million and \$5.5 million respectively in the prior year. During 2001 \$0.4 million was raised from common shares issued pursuant to the share option plan compared with \$0.1 million the prior year. In 2001 and 2000, \$2.0 million and \$2.1 million were spent to increase IPSCO's ownership share of General Scrap Partnership to 91 percent and 81 percent respectively. Long-term debt totalling \$73.1 million was retired in 2001 and \$21.1 million was repaid in the prior year. The effect of exchange rates resulted in a decrease in cash of \$3.5 million in 2001, comparable to a \$3.6 million decrease in 2000. Capital spending at \$155.8 million was down substantially from \$368.2 million spent in 2000.

Net of bank indebtedness, cash decreased by \$15.7 million during 2001 to \$2.5 million. This compares to a decrease in cash of \$76.7 million during 2000 with a year-ending balance of \$18.2 million. Bank indebtedness representing advances under the Company's demand operating facility, amounted to \$35.0 million during the year.

## Steelworks

In 2001, capital outlays for the new Mobile Steelworks were \$129.1 million. A substantial portion went to liquidating holdbacks on the various equipment supply contracts and for capitalized start-up costs. Under Canadian generally accepted accounting principles losses during the six-month commissioning period and interest during the period have been treated as capital items. These amounts were \$35 million and \$14 million respectively.

The Mobile Steelworks underwent a normal startup period and had reached fifty percent effective capacity by year-end, a rate which the Company was satisfied with given the mix required to address market demand. Mobile, like Montpelier, is capable of producing coil as well as heavy and light discrete plate. The Mobile Steelworks produced its first liquid steel late in the first quarter of 2001, within the time frame announced at the commencement of the project, but about three months behind the time specified in the construction and erection contract that included a guaranteed-not-to-exceed cost provision. The contractual amount was exceeded and damages of over \$60 million are being sought by IPSCO in a court action commenced in September. The defendant has denied liability and asserted certain counterclaims which the Company believes are without merit. The case remains in the early stages of discovery.

Since its initial start-up the Montpelier Steelworks has required substantial modifications due to equipment unreliability and its failure to meet the contracted output. The year saw what management hopes to have been the last of the major expenditures needed for such rectification that in 2001 needed a protracted shutdown of the plant for seventeen days. Capital spending for the year at Montpelier was \$13.1 million while additional sums, treated as expense for accounting purposes, were also recognized. The non-performance of Montpelier's equipment and general contractor was the subject of a civil lawsuit that was settled out of court in mid-year for \$49 million.

Spending in other areas was kept to minimum levels consistent with the poor state of the steel market in North America and the resultant reduced cash generation. Indeed, the termination of the Mobile start-up period at the end of the third quarter meant that total capital spending for the Company as a whole fell to just \$9.6 million in the fourth quarter.

## Capital Structure

IPSCO strives to maintain a strong balance sheet and a flexible capital structure. The Company believes that the principal indicators of its creditworthiness are its debt to total capitalization percentage, its level of interest coverage, and the degree to which covenants in its existing lending agreements may affect its future ability to access debt markets.

The Company's most restrictive covenant at 31 December 2001 with respect to funded debt requires that funded debt not exceed 45.0 percent of consolidated tangible net worth. For purposes of this covenant, funded debt includes (a) long-term debt (including the current portion), (b) the Junior Subordinated Notes, (c) the lease of the meltshop and caster equipment at the Montpelier Steelworks, and (d) certain letters of credit. At 31 December 2001, the percentage of funded debt, so calculated, to tangible net worth was 43.0 percent as compared to 41.5 percent at the end of 2000.

Based on the aforementioned funded debt to tangible net worth covenant, the Company estimates that as at 31 December 2001 approximately \$56.4 million in additional funded debt could have been incurred in compliance with this covenant, which compares to \$96.0 million available for draw at the end of 2000. This amount does not include amounts available for draw by the Company under its operating line or receivables securitization facility or that may be available for utilization by the Company under other methods of financing which would not constitute funded debt for purposes of the Company's lending agreements.

In January of 2002 the Company began discussions with its banking syndicate partners to amend this covenant to allow that funded debt not exceed 50.0 percent of consolidated tangible net worth. This amendment would add short-term borrowings to the definition of funded debt contained in the existing covenant. A signed agreement is anticipated in February of 2002. If the amendment is approved, as management expects, there will be approximately \$181 million of additional funded debt capacity, significantly more than the \$56.4 million at year-end.

The ratio of the Company's long-term debt to total capitalization, as calculated in accordance with Canadian GAAP, at the end of 2001 increased to 28 percent from 26 percent as at the end of 2000. The difference between the ratio of the Company's long-term debt to total capitalization and the ratio of the Company's funded debt to tangible net worth as described above results primarily from the differences in the accounting treatment given under the relevant lending agreement and under Canadian GAAP, to the Company's Junior Subordinated Notes and the Montpelier Steelworks melt shop and slab caster lease.

IPSCO's most restrictive covenant with respect to equity maintenance requires that tangible net worth, as defined by and calculated in accordance with the relevant lending agreement (excluding the Junior Subordinated Notes), be maintained at a minimum of \$570 million, plus 50 percent of net income earned after 31 December 1998. The Company's equity exceeded this requirement by \$225.0 million or 34 percent at 31 December 2001, and by \$244.4 million or 38 percent at the end of 2000.

As part of the Company's regular review of the dividend level on common shares, it was decided in the fourth quarter to change the quarterly dividend from CDN \$0.125 per share to CDN \$0.05 per share. This was undertaken as part of the Company's cash conservation program arising from short term uncertainty in the North American steel industry.

Even though there are no interest coverage restrictions contained in IPSCO's lending agreements, the number of times that the Company's earnings before interest and taxes can cover its interest on long-term debt ("interest coverage") is an important indication of its ability to issue additional long-term debt.

Interest on long-term debt charged to earnings is described on page 11. Interest incurred, capitalized and charged to earnings in 2001, 2000, and 1999 are as follows:

	2001	2000	1999
	(millions of dollars)		
Incurred	\$ 26.1	\$ 23.1	\$ 21.7
Capitalized	<u>19.5</u>	<u>16.2</u>	<u>2.6</u>
Charged to Earnings	<u>\$ 6.6</u>	<u>\$ 6.9</u>	<u>\$ 19.1</u>

IPSCO's interest coverage in 2001 decreased to 2.6 times from 3.8 times in 2000, on an interest-incurred basis. On an interest charged to earnings basis, interest coverage decreased to 10.2 times, from 12.7 times in 2000.

The most restrictive covenant in the Company's lending agreements with respect to working capital requires that the Company maintain a working capital ratio of 1.5 to 1.0. The Company exceeded this requirement by a relatively wide margin with working capital ratios of 2.0:1 and 2.5:1 at the end of 2001 and 2000 respectively.



## Liquidity

The principal indicators of IPSCO's liquidity are its cash position, the accounts receivable that can be sold through its existing receivables securitization facility (refer to "Business Risks and Uncertainties") and the amounts remaining available to be drawn under its bank lines of credit.

The Company's receivables securitization facility, arranged through a major Canadian bank, permits the sale of up to CDN \$75.0 million, or the U.S. dollar equivalent, of its Canadian or U.S. accounts receivable. At 31 December 2001 no accounts receivable had been sold.

In 2000 the Company renegotiated its existing lines of credit. The Company has a committed revolving term facility of \$200.0 million to March, 2005, and a demand operating facility of \$50.0 million. These lines of credit can be drawn at spreads over the Canadian prime rate, the U.S. base rate, Canadian Bankers' Acceptances Reference Discount Rate or U.S. dollar LIBOR, in either Canadian or United States funds, subject to maintaining the prescribed working capital ratio and other financial covenants. At 31 December 2001, \$128.0 million was drawn under the term bank lines, \$35 million was drawn on the demand facility, and letters of credit of approximately U.S. \$12.2 million were outstanding. As was the case in 2001, \$21.1 million of IPSCO's long-term debt matures in 2002.

During 2001, IPSCO's cash position increased by \$19.3 million to \$37.5 million while the working capital ratio decreased to 2.0 to 1.0 from 2.5 to 1.0.

As at 31 December 2001, the committed cost to complete in process capital projects was \$4.7 million. As at the end of 2000, this amount was \$42.7 million. Management currently expects to invest under \$40 million for new and existing capital programs in 2002.

Assuming continuing profitability, IPSCO expects that it will be able to finance these expenditures from its cash position, cash from operations, bank lines of credit and its accounts receivable securitization facility (refer to "Risks and Uncertainties"), but may also consider additional debt or equity financing in the future.

From time to time IPSCO makes use of interest rate swaps and foreign currency contracts to manage the Company's interest rate and foreign exchange risks. At the end of December 2001, the Company did not have any such contracts outstanding. The Company has entered into a swap agreement to hedge the cost of purchasing natural gas. The agreement fixes the price the Company must pay for 1,500 gigajoules per day from 01 November 2001 through 31 October 2004. As at 31 December 2001, the unrealized loss under the swap agreement was \$1,892.

## Commitments

The Company has ongoing commitments under various contractual and commercial obligations at 31 December 2001 as follows:

Contractual Obligations (\$ millions)	Payments Due by Period				
	Total	Less than 1 year	1 to 3 years	4 to 5 years	After 5 years
Long-term debt	408	21	214	106	67
Operating leases	252	22	70	35	125
Other long-term obligations	304	43	106	57	98
Total contractual cash obligations	964	86	390	198	290

## BUSINESS RISKS AND UNCERTAINTIES

In the Company's opinion, weakness in the Canadian or United States economies could result in a lessening of demand for steel products. The Company will need to maintain certain levels of market penetration for the products produced to operate profitably. There can be no assurance that the overall market demand for the products produced will not decrease in the future or that the Company will be successful in gaining necessary market share for these products. Any reduction in overall market demand or the failure to gain market share for these products could have an adverse effect on the Company.

Excess global capacity and its effect on prices remain a significant risk. Excess supply resulted in surges of unfairly priced steel into North American markets and drove prices to historically low levels in 2001. This action led to a Section 201 investigation in the United States and the International Trade Commission concluded that for the majority of products reviewed, imported steel had seriously injured domestic producers. There can be no assurance that remedies beneficial to the North American steel industry will be implemented or that these actions, if taken, will allow the domestic industry to recover.

The Company has substantial investments in and operates manufacturing facilities in both the United States and Canada. As a result, the Company utilizes currencies of both countries in various aspects of its business, with the split between the United States dollar and Canadian dollar denominated sales and expenditures varying over time. Fluctuations in the value of the Canadian dollar relative to the United States dollar can have a material adverse effect on the Company. The average value of the Canadian dollar declined from \$0.6733 in fiscal 2000 to \$0.6460 fiscal 2001. There can be no assurance that fluctuations in the exchange rate between the Canadian and the United States dollar will not in the future be material.

The Company supplies significant tonnage of tubular goods related to oil and natural gas exploration and production. Oil and natural gas exploration and production and therefore demand for oil country tubular goods benefit from higher energy prices, which in turn spurs drilling rig activity. There can be no assurance that future commodity downward price volatility will not materially impact the Company's ability to sell these products to maintain profitability.

IPSCO has accumulated net operating losses, on a tax basis, of \$359 million as at 31 December 2001 on its United States operations for which the Company has recorded future tax benefits. This compares to accumulated net operating losses of \$231 million as at 31 December 2000. The ability to realize these future tax benefits is largely dependent on future profitability. Although 97 percent of these benefits do not begin to expire until 2018, there can be no guarantee that all benefits related to these tax assets will be realized before they expire.

Due to the impact of certain customer bankruptcies, the existing receivables securitization facility is being reviewed by the arranging bank. It is expected that the review and subsequent amendment to the facility, if any, will be completed to allow sales under the facility in March of 2002. Due to continuing uncertainty in the North American steel market, there is no assurance that this review, or future reviews necessitated by additional customer bankruptcies, will not reduce the amount able to be sold under the facility.

Approximately 45 percent of the Company's employees are represented by various trade unions. The collective bargaining agreement covering United Steelworkers of America (USWA) employees in Regina and Calgary, which accounts for approximately 88 percent of the Company's unionized employees, will expire on July 31, 2002. The only employees in the United States represented by a union are certain employees at the St. Paul facility. There can be no assurance that the Company will be able to negotiate a satisfactory renewal to the USWA collective bargaining agreement or that labour organizing activities at one or more of the Company's other facilities will not occur or that any such activities, or any other labour difficulties at the Company or any other company upon which the Company is dependent for raw materials, transportation or other services, would not have a material adverse effect on the Company.

The major raw material used in the steel making process is reclaimed iron and steel scrap. This recycling has contributed to protecting the environment. As an ongoing commitment to the environment, the Company continues to monitor emissions, perform site clean-up, and invest in new equipment and processes. Nevertheless, changing environmental legislation and regulatory practices are likely to require future expenditures to modify operations, install pollution control equipment, dispose of waste products, and perform site clean-up and site management. During 2001 non-routine project expense and capital spending on programs aimed at environmental controls and avoiding potential environmental hazards amounted to \$11.4 million, including \$7.5 million at the Mobile Steelworks. This compares to \$2.7 million spent in the prior year in addition to \$25.0 million spent on the Mobile Steelworks.

## OUTLOOK

2001 saw the retirement of IPSCO President and Chief Executive Officer, Roger Phillips, who had held that office since 1982. During that time there was considerable growth of the IPSCO manufacturing and geographic coverage. Also during that time senior level management was put in place who have participated in the Company's strategic decisions and the implementation of same. IPSCO anticipates no major changes to the strategic direction of the Company with its focus on production of wider and heavier plate, tubular products from a variety of strategically located pipe mills, and servicing of the market with product from its coil processing facilities located in areas of heavy demand.

Continuing price erosion caused by the lingering effects of imports plagued the year 2001. With the added adversity of the recession and softened demand, the financial strain has further weakened the North American steel industry. At year end, a reported twenty-nine companies in the industry were in bankruptcy, several closed permanently, and others were on the brink. In addition to these global conditions, energy prices in the second half of the year dropped and along with the challenge of the weather patterns have lead to reduced demand for IPSCO's oil country products. Despite this adversity, IPSCO was profitable for the year although it suffered its first quarterly loss since 1992 in the fourth quarter.

The factors affecting demand and pricing in 2001 have shown signs of improvement early in 2002. IPSCO announced price increases in December of 2001 which appear to be holding in the market. IPSCO believes that steel supplies are being reduced as distributors sell excess inventory accumulated when low priced imports were sold into the North American market. The U.S. International Trade Commission, in the recent case under section 201 of the United States Trade Act of 1974, found injury in all IPSCO product lines, other than oil country tubular goods, by unanimous vote of the Commissioners. President Bush's remedy decision in the case is expected shortly.

However, the benefits of price increases and potential for reduced import penetration resulting from possible section 201 remedies will be offset if demand is depressed due to a slow economic recovery. As conditions today are only slightly better than the fourth quarter of 2001, a loss in the first quarter of 2002 can be anticipated.



# **FINANCIAL • 2001**

*Consolidated Financial Statements*  
*31 December 2001*

# Management's Responsibility for Financial Statements

The accompanying consolidated financial statements of IPSCO Inc., and all information in this report, were prepared by management, which is responsible for its integrity and objectivity.

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles and necessarily include some estimates based upon management's judgments. The significant accounting policies, which management believes appropriate for the company, are described in Note 2 to the financial statements. Financial and operating data presented elsewhere in the annual report are consistent with the information contained in the financial statements.

The integrity and reliability of IPSCO's reporting systems are achieved through the use of formal policies and procedures, the careful selection of employees and an appropriate division of responsibilities. Internal accounting controls are continually monitored by an internal audit staff through ongoing reviews and comprehensive audit programs. IPSCO regularly communicates throughout the organization the requirement for employees to maintain high ethical standards in their conduct of the company's affairs.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control and exercises this responsibility principally through the Audit Committee of the Board. The Board of Directors annually appoints this Audit Committee which is comprised of directors who are neither employees of IPSCO nor of companies affiliated with the company. This committee meets regularly with management, the head of the internal audit department, and the shareholders' auditors to review significant accounting, reporting and internal control matters. Both the internal and shareholders' auditors have unrestricted access to the Audit Committee. Following its review of the financial statements and annual report and discussions with the shareholders' auditors, the Audit Committee reports to the Board of Directors prior to the Board's approval of the financial statements and annual report. The Audit Committee recommends the appointment of the company's external auditors, who are appointed by the company's shareholders at its annual meeting.

Ernst & Young LLP, the shareholders' auditors, have performed an independent audit in accordance with Canadian generally accepted auditing standards and have attested to the fairness, in all material respects, of the presentation of the financial statements. Their report follows.



David Sutherland  
President and Chief Executive Officer  
28 January 2002



Robert Ratliff  
Vice President and Chief Financial Officer

## Auditors' Report

To the Shareholders of IPSCO Inc.

We have audited the consolidated statements of financial position of IPSCO Inc. as at 31 December 2001 and 2000 and the consolidated statements of income and retained earnings, and cash flows for each of the years in the three year period ended 31 December 2001. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at 31 December 2001 and 2000 and the results of its operations and its cash flows for each of the years in the three year period ended 31 December 2001 in accordance with Canadian generally accepted accounting principles.

As described in note 9, effected 01 January 2000, the company began accounting for its pension plans in accordance with Section 3461 of the Canadian Institute of Chartered Accountants Handbook.

*Ernst + Young LLP*

Chicago, Illinois  
28 January 2002



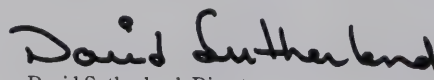
IPSCO Inc. Consolidated Statements of Financial Position  
As at 31 December  
(thousands of United States dollars)

	Notes	2001	2000
<b>CURRENT ASSETS</b>			
Cash and cash equivalents		\$ 37,492	\$ 18,151
Accounts receivable			
Trade less allowances	3	106,770	135,412
Other		9,938	31,037
Inventories	4	239,394	225,958
Prepaid expenses		2,031	2,631
Income taxes allocated to future years	5	44,490	34,409
		<u>440,115</u>	<u>447,598</u>
<b>CURRENT LIABILITIES</b>			
Bank indebtedness	7	35,000	-
Accounts payable and accrued charges	6	129,366	133,799
Accrued payroll and related liabilities		15,315	16,838
Income and other taxes payable		2,111	-
Current portion of long-term debt	7	21,100	21,100
Other current liabilities		13,926	10,508
		<u>216,818</u>	<u>182,245</u>
<b>WORKING CAPITAL</b>		<u>223,297</u>	<u>265,353</u>
Capital assets	8	1,163,803	1,081,549
Deferred charges		2,026	2,695
Income taxes allocated to future years	5	126,123	88,066
		<u>1,291,952</u>	<u>1,172,310</u>
<b>TOTAL INVESTMENT</b>		<u>1,515,249</u>	<u>1,437,663</u>
Long-term debt	7	386,809	343,822
Deferred pension liability	9	234	4,365
Income taxes allocated to future years	5	142,668	104,842
		<u>529,711</u>	<u>453,029</u>
<b>SHAREHOLDERS' EQUITY</b>			
Derived from		<u>\$ 985,538</u>	<u>\$ 984,634</u>
Preferred shares	10	\$ 98,545	\$ 98,572
Common shares	11	256,163	255,772
Subordinated notes	12	104,250	104,250
Retained earnings	13	491,777	475,551
Cumulative translation adjustment		34,803	50,489
		<u>\$ 985,538</u>	<u>\$ 984,634</u>
Commitments and contingencies	17,19&22		

The accompanying notes are an integral part of the consolidated financial statements.

Approved by the Board

  
Burton Joyce, Director

  
David Sutherland, Director

IPSCO Inc. Consolidated Statements of Income and Retained Earnings  
 Years Ended 31 December  
 (thousands of United States dollars except per share data)

	Notes	2001	2000	1999
Revenue				
Sales		\$ 903,743	\$ 949,263	\$ 808,251
Expenses				
Cost of sales, exclusive of the following items		770,742	764,198	615,827
Selling, research and administration		57,527	62,076	46,122
Interest on long-term debt	7	6,634	6,934	19,067
Amortization of capital assets		37,107	35,257	29,670
Litigation settlement	22	(39,000)	—	—
Provision for loss on assets held for sale or redeployment	8	10,000	—	—
		<u>843,010</u>	<u>868,465</u>	<u>710,686</u>
Income before income taxes		60,733	80,798	97,565
Income taxes	5	<u>21,865</u>	<u>23,125</u>	<u>23,283</u>
NET INCOME		38,868	57,673	74,282
Dividends on preferred shares including part V.I.I tax	10	5,692	5,935	5,895
Interest on subordinated notes net of income tax	12	<u>5,771</u>	<u>4,890</u>	<u>133</u>
NET INCOME AVAILABLE TO COMMON SHAREHOLDERS		<u>\$ 27,405</u>	<u>\$ 46,848</u>	<u>\$ 68,254</u>
EARNINGS PER COMMON SHARE – Basic	14	<u>\$ 0.67</u>	<u>\$ 1.15</u>	<u>\$ 1.68</u>
EARNINGS PER COMMON SHARE – Diluted	14	<u>\$ 0.66</u>	<u>\$ 0.91</u>	<u>\$ 1.58</u>
RETAINED EARNINGS AT BEGINNING OF YEAR, as previously reported		\$ 475,551	\$ 451,548	\$ 397,051
Cumulative effect of change in accounting policy	9	<u>—</u>	<u>(8,977)</u>	<u>—</u>
RETAINED EARNINGS AT BEGINNING OF YEAR, as adjusted		475,551	442,571	397,051
NET INCOME		<u>38,868</u>	<u>57,673</u>	<u>74,282</u>
		514,419	500,244	471,333
Dividends on preferred shares including part V.I.I tax	10	5,692	5,935	5,895
Interest on subordinated notes net of income tax	12	5,771	4,890	133
Dividends on common shares	13	11,179	13,748	13,744
Issue costs net of income tax	10&12	<u>—</u>	<u>120</u>	<u>13</u>
RETAINED EARNINGS AT END OF YEAR		<u>\$ 491,777</u>	<u>\$ 475,551</u>	<u>\$ 451,548</u>

The accompanying notes are an integral part of the consolidated financial statements.

IPSCO Inc. Consolidated Statements of Cash Flows  
 Years Ended 31 December  
 (thousands of United States dollars)

	Notes	2001	2000	1999
<b>CASH DERIVED FROM (APPLIED TO)</b>				
Operating activities				
Working capital provided by operations	15	\$ 57,766	\$ 92,166	\$ 81,734
Change in non-cash operating working capital	15	50,557	(69,412)	(26,221)
		<u>108,323</u>	<u>22,754</u>	<u>55,513</u>
Financing activities				
Common share dividends		(11,179)	(13,748)	(13,744)
Preferred share dividends		(5,337)	(5,540)	(5,602)
Issue of subordinated notes (net of issue costs)	12	—	89,824	9,980
Subordinated notes interest		(8,500)	(3,161)	—
Common shares issued pursuant to share option plan	11	391	115	1,151
Proceeds from sale-leaseback of capital assets	19	15,000	158,001	—
Issue of long-term debt	7	120,000	70,000	28,000
Repayment of long-term debt	7	(73,100)	(21,100)	(1,100)
Debt issue expenses		—	—	(394)
		<u>37,275</u>	<u>274,391</u>	<u>18,291</u>
Investing activities				
Expenditures for capital assets	16	(155,775)	(368,190)	(118,740)
Investment in partnership	17	(1,993)	(2,075)	(1,995)
		<u>(157,768)</u>	<u>(370,265)</u>	<u>(120,735)</u>
Effect of exchange rate changes on cash and cash equivalents		(3,489)	(3,560)	8,491
<b>DECREASE IN CASH AND CASH EQUIVALENTS</b>				
LESS BANK INDEBTEDNESS		(15,659)	(76,680)	(38,440)
<b>CASH AND CASH EQUIVALENTS</b>				
LESS BANK INDEBTEDNESS AT BEGINNING OF YEAR		<u>18,151</u>	<u>94,831</u>	<u>133,271</u>
<b>CASH AND CASH EQUIVALENTS</b>				
LESS BANK INDEBTEDNESS AT END OF YEAR		<u>\$ 2,492</u>	<u>\$ 18,151</u>	<u>\$ 94,831</u>

The accompanying notes are an integral part of the consolidated financial statements.



IPSCO Inc. Notes to Consolidated Financial Statements  
For the Years Ended 31 December  
(thousands of United States dollars except per share data)

## 1. Nature of Operations

IPSCO Inc. is a producer of steel products. The company's products are sold primarily in Canada and the United States.

The company currently employs approximately 2,400 people, of whom approximately 55% are non-unionized personnel and approximately 45% are represented by trade unions. The company is a party to separate collective bargaining agreements with a term to 31 July 2002 with locals of the United Steelworkers of America (USWA) which represent unionized employees in Regina and Calgary. These employees account for approximately 88% of the company's unionized employees.

In 2001 and 2000 no significant customer accounted for 10% of sales and in 1999 one significant customer accounted for 27% of sales. At 31 December 2001 and 2000, no customer represented 10% of the accounts receivable balance.

## 2. Significant Accounting Policies

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles, and include certain estimates based on management's judgments. These estimates affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results may differ from those estimates. The accounting policies followed by the company also conform in all material respects with accounting principles generally accepted in the United States, except as described in Note 21.

### REPORTING CURRENCY

Assets and liabilities of the company's operations having a functional currency other than the U.S. dollar are translated into U.S. dollars using the exchange rate in effect at the year-end and revenues and expenses are translated at the average rate during the year. Exchange gains or losses on translation of the company's net equity investment in these operations are deferred as a separate component of shareholders' equity.

The change in the cumulative translation adjustment results primarily from fluctuations of the Canadian dollar against the U.S. dollar.

### BASIS OF CONSOLIDATION

The consolidated financial statements include the accounts of the company and its subsidiaries. Significant inter-company transactions are eliminated on consolidation.

### CASH EQUIVALENTS

Cash equivalents are securities of the government of Canada and its provinces, the government of the United States, banks, and other corporations, with a maturity of less than three months when purchased. These highly liquid securities are short-term and have fixed interest rates.

### INVENTORIES

Inventories are valued at the lowest of average cost, replacement cost and net realizable value.

### INCOME TAXES

The company follows the liability method of tax allocation in accounting for income taxes. Under this method, future tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities, and measured using the substantially enacted tax rates and laws that will be in effect when the differences are expected to reverse.

**CAPITAL ASSETS**

Capital assets are stated at cost. For major projects under construction, the company capitalizes interest based on expenditures incurred to a maximum of interest costs on debt.

Amortization is provided on the straight-line basis at the following annual rates:

Buildings	4%
Machinery and Equipment	4% to 33%

Amortization is provided on all assets acquired as they come into production. For certain major projects, the units-of-production method is used until a substantial level of production is reasonably sustained.

**REPAIR AND MAINTENANCE COSTS**

Repair and maintenance costs are expensed as incurred except for the estimated cost of major overhauls and repairs which are accrued over the period between the major overhauls and repairs.

**DEFERRED CHARGES**

Financing costs relating to long-term debt are deferred and amortized over the term of the related debt and included in interest expense for the year.

**PENSION EXPENSE AND DEFERRED PENSION BALANCE**

The cost of pension benefits earned by the employees covered by defined benefit plans is actuarially determined using the projected benefit method prorated on service and management's best estimate of expected plan investment performance, salary escalation, terminations, and retirement ages of plan members. Adjustments for plan amendments, changes in assumptions and actuarial gains and losses are charged to operations over the expected average remaining service life of the employee group which is approximately 13 years. The costs of pension benefits for defined contribution plans are charged to operations as contributions become due.

**EARNINGS PER COMMON SHARE**

In December 2000, The Canadian Institute of Chartered Accountants issued Handbook Section 3500, Earnings Per Share, effective for fiscal years commencing 01 January 2001, which requires the use of the treasury stock method of computing diluted earnings per share. The company adopted the recommendations of this standard 01 January 2001, with retroactive application. Accordingly, all per share amounts for periods prior to 2001 have been restated to reflect use of this standard.

**FAIR VALUE OF FINANCIAL INSTRUMENTS**

The following methods and assumptions were used to estimate the fair value of each class of financial instrument:

*Cash and cash equivalents*

The carrying value of cash and cash equivalents approximates its fair value.

*Long-term debt*

The fair value of the company's long-term debt has been estimated based on current market prices. Where no market price is available, an estimate based on current rates for similar instruments with similar maturities has been used to approximate fair value.

*Natural gas swap*

The company has entered into a swap agreement to hedge the cost of purchasing natural gas. The agreement fixes the price the company must pay for 1,500 gigajoules per day from 01 November 2001 through 31 October 2004. As at 31 December 2001, the unrealized loss under the swap agreement was \$1,892.

**SHARE OPTION PLAN**

The company has a share option plan as described in Note 11(c). No compensation expense is recognized when the share options are issued to employees since the options are issued at market value on the date of the grant. Any consideration paid by employees on exercise of share options is credited to share capital.

**REVENUE RECOGNITION**

Sales and related costs are recognized upon transfer of ownership which coincides with acceptance of or shipment of products to customers.

**DERIVATIVE FINANCIAL INSTRUMENTS**

The company enters into hedging transactions, from time to time, in order to manage its exposure to changes in energy commodity prices. Gains or losses relating to derivative instruments are deferred and recognized in the same period and in the same financial statement category as the gains or losses on the corresponding hedged transactions. Premiums paid with respect to derivatives are deferred and amortized to income over the term of the hedge.

**RECLASSIFICATION**

Certain of the prior year's figures have been reclassified to conform with the presentation adopted for the current year.

**3. Accounts Receivable**

On 27 September 2001, the company amended an existing agreement to sell accounts receivable, on a revolving basis, up to a maximum value of CDN \$75,000, with limited recourse. Through 31 December 2001, no accounts receivable have been sold pursuant to this agreement. The agreement may be terminated under certain conditions at any time by the company or the purchaser and in any event, on 31 January 2005.

**4. Inventories**

	2001	2000
Finished goods	\$ 105,105	\$ 89,394
Work-in-process	62,029	65,344
Raw materials	18,755	24,146
Supplies	53,505	47,074
	<u>\$ 239,394</u>	<u>\$ 225,958</u>

**5. Income Taxes**

a) The geographical components of income (loss) before income taxes are summarized below:

	2001	2000	1999
Canada	\$ 61,033	\$ 77,785	\$ 134,413
United States	(300)	3,013	(36,848)
	<u>\$ 60,733</u>	<u>\$ 80,798</u>	<u>\$ 97,565</u>



b) The provision for income taxes is summarized as follows:

	2001	2000	1999
Current			
Canada	\$ 30,501	\$ 23,003	\$ 38,283
United States	5,020	(4,819)	4,904
	<u>\$ 35,521</u>	<u>18,184</u>	<u>43,187</u>
Future			
Canada	(5,995)	6,649	9,248
United States	(7,661)	(1,708)	(29,152)
	<u>\$ (13,656)</u>	<u>4,941</u>	<u>(19,904)</u>
	<u>\$ 21,865</u>	<u>\$ 23,125</u>	<u>\$ 23,283</u>

c) Income tax expense differs from the amount computed by applying the corporate income tax rates (Canadian Federal and Provincial) to income before income taxes. The reasons for this difference are as follows:

	2001	2000	1999
Corporate income tax rate	<u>45.9%</u>	<u>46.1%</u>	<u>45.8%</u>
Provision for income taxes based on corporate income tax rate	\$ 27,870	\$ 37,240	\$ 44,675
Increase (decrease) in taxes resulting from			
Manufacturing and processing profit	(6,748)	(9,672)	(17,839)
Large corporation tax	880	857	727
Income taxed at different rates in the United States	(11,952)	(13,506)	(5,887)
Valuation allowance	10,800	8,000	—
Other	1,015	206	1,607
	<u>\$ 21,865</u>	<u>\$ 23,125</u>	<u>\$ 23,283</u>

d) Income taxes allocated to future years are comprised of the following:

	2001	2000
Future tax assets:		
Accounting provisions not deductible for tax purposes	\$ 34,669	\$ 27,548
Capitalized general and administration	9,821	6,860
Net operating loss carry-forwards	141,942	90,352
Pension expense in excess of contributions	517	2,046
Other	2,464	3,669
Total future tax assets	<u>189,413</u>	<u>130,475</u>
Future tax liabilities:		
Capital cost allowance in excess of amortization	129,958	96,471
Foreign exchange gain on debt	9,128	4,617
Other	3,582	3,754
Total future tax liabilities	<u>142,668</u>	<u>104,842</u>
Valuation allowance	<u>18,800</u>	<u>8,000</u>
Net income tax asset allocated to future years	<u>\$ 27,945</u>	<u>\$ 17,633</u>

e) At 31 December 2001, United States subsidiaries of the company had accumulated net operating losses carried forward of \$359,405 for which the future tax benefits have been recorded. The related tax benefits can be carried forward and, subject to certain limitations, offset against income tax expense arising in future periods up to the year 2021. In determining the valuation allowance for net income taxes allocated to future years at 31 December 2001, the company has utilized certain tax planning strategies that it considers to be prudent and feasible.

## 6. Accounts Payable and Accrued Charges

Included in accounts payable and accrued charges is an accrual to cover the costs of major overhauls and repairs. Timing of these expenditures is dictated by future events and market conditions. At 31 December 2001 and 2000, the amounts accrued are \$13,578 and \$9,355 respectively.

## 7. Debt

	Carrying Value		Fair Value	
	2001	2000	2001	2000
a) Long-term debt				
10.58% Unsecured note, payable in four remaining equal annual instalments with the next payment due 01 September 2002	\$ 4,400	\$ 5,500	\$ 4,812	\$ 5,879
6.94% Unsecured notes, payable in three remaining equal annual instalments with the next payment due 01 April 2002	60,000	80,000	62,091	79,484
7.32% Unsecured notes, payable in seven equal annual instalments commencing 01 April 2003	100,000	100,000	101,310	98,297
7.80% Unsecured debentures, (CDN \$100,000) maturing and payable 01 December 2006	62,794	66,707	65,639	64,239
6.00% Unsecured loan, maturing and payable 01 June 2007. The company has the option at maturity to extend the term of the loan to no later than 01 June 2027 at an interest rate to be negotiated	14,715	14,715	13,655	13,144
8.11% Unsecured financing, maturing and payable 01 November 2009. The company has the option at maturity to extend the term of the loan to no later than 01 November 2029 at an interest rate to be negotiated	28,000	28,000	28,262	26,911
6.875% Unsecured financing, maturing and payable 01 May 2010. The company has the option at maturity to extend the term of the loan to no later than 01 May 2030 at an interest rate to be negotiated	10,000	10,000	9,293	9,048
Various Bank lines of credit (b)	128,000	60,000	128,000	60,000
	407,909	364,922	413,062	357,002
Less current portion of long-term debt	(21,100)	(21,100)	(21,900)	(21,047)
	<u>\$ 386,809</u>	<u>\$ 343,822</u>	<u>\$ 391,162</u>	<u>\$ 335,955</u>



## b) Bank lines of credit

At 31 December 2001, the company had bank lines of credit aggregating U.S. \$250,000 (2000 - U.S. \$250,000), which can be drawn in Canadian or U.S. currency, of which U.S. \$163,000 (2000 - U.S. \$60,000) had been drawn down other than letters of credit of CDN \$13,413, U.S. \$3,775 (2000 - CDN \$13,927). Bank lines of credit are comprised of a U.S. \$200,000 (2000 - U.S. \$200,000) revolving term facility that expires 04 March 2005 and a U.S. \$50,000 (2000 - U.S. \$50,000) demand operating facility. Both facilities bear interest at spreads over the Canadian prime rate, the U.S. base rate, Canadian Bankers' Acceptances Reference Discount Rate or U.S. dollar LIBOR and are not secured by specific assets of the company.

At 31 December 2001, a partnership in which the company has a 91% (2000 - 81%) interest had short-term bank lines of credit aggregating CDN \$16,652 (2000 - CDN \$18,000) of which CDN \$Nil (2000 - CDN \$825) had been drawn down. These bank lines of credit are reviewed at least annually and are revolving operating and term facilities that bear interest at either the Canadian prime rate or the U.S. base rate and are secured by certain assets of the partnership.

Minimum payment requirements on long-term debt arrangements, without exercising the options to extend the terms outstanding, are as follows:

2002	\$ 21,100
2003	35,386
2004	35,386
2005	143,386
2006	77,080
	<u>312,338</u>
2007 - 2010	95,571
	<u>\$ 407,909</u>

## 8. Capital Assets

	2001			2000		
	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net
Land and land improvements	\$ 55,741	\$ —	\$ 55,741	\$ 57,636	\$ —	\$ 57,636
Buildings	130,165	33,956	96,209	84,588	32,294	52,294
Machinery and equipment	1,174,877	212,889	961,988	655,944	189,890	466,054
Construction in progress	35,184	—	35,184	481,898	—	481,898
	<u>1,395,967</u>	<u>246,845</u>	<u>1,149,122</u>	<u>1,280,066</u>	<u>222,184</u>	<u>1,057,882</u>
Assets held for sale or redeployment	26,441	11,760	14,681	36,077	12,410	23,667
	<u>\$1,422,408</u>	<u>\$ 258,605</u>	<u>\$1,163,803</u>	<u>\$1,316,143</u>	<u>\$ 234,594</u>	<u>\$1,081,549</u>

Certain capital assets, which are not employed in production, have been segregated pending a decision on ultimate disposition and are carried at an amount not exceeding management's best estimate of net realizable value. During 2001, the company wrote down the carrying value of these assets by \$10,000 to reflect the company's most recent valuation. The company's valuation includes significant estimates concerning the cost to complete environmental remediation activities, as well as in estimating the ultimate net recovery value of the property. The estimated environmental costs could change depending on the remediation method used. The company's estimates of net sales value could be impacted by continuation of the current economic downturn and the company's ability to obtain necessary zoning and other approvals.

During the year, \$20,523 (2000 - \$17,055, 1999 - \$2,654) of interest costs were capitalized.

## 9. Pension Plans

The company provides retirement benefits for substantially all of its employees under several defined benefit and defined contribution plans. The defined benefit plans provide benefits that are based on a combination of years of service and an amount that is either fixed or based on final earnings. The defined contribution plans restrict the company's matching contributions to 5% of each participating employee's annual earnings.

Effective 01 January 2000, the company began accounting for its pension plans in accordance with Section 3461 of the Canadian Institute of Chartered Accountants (CICA) handbook. Prior to 01 January 2000, the company accounted for its pension plans in accordance with Section 3460 of the CICA handbook. The effect of the change in accounting policy was to increase the deferred pension liability by \$14,249 as a result of a change in the discount rate. The increase in the deferred pension liability, net of income taxes of \$5,272, was charged to retained earnings in 2000.

The company's policy with regard to the defined benefit plans is to fund the amount that is required by governing legislation.

Net pension expense attributable to the company's pension plans for 2001, 2000, and 1999 included the following components:

	2001	2000	1999
Defined benefit plans			
Service cost for benefits earned	\$ 2,966	\$ 2,899	\$ 2,426
Interest cost on benefit obligations	6,389	6,522	6,465
Expected return on plan assets	(7,303)	(6,965)	(6,757)
Net amortization	—	—	126
	<u>2,052</u>	<u>2,456</u>	<u>2,260</u>
Defined contribution plans	2,743	1,917	1,295
Net pension expense	<u>\$ 4,795</u>	<u>\$ 4,373</u>	<u>\$ 3,555</u>

The following table sets forth the defined benefit plans' funded status and amount included in the deferred pension balance in the company's statement of financial position at 31 December 2001 and 2000:

	2001	2000
Benefit obligation at beginning of year	\$ 101,256	\$ 83,949
Cumulative effect of change in accounting policy	—	14,249
Service cost for benefits earned	3,088	3,022
Interest cost on benefit obligation	6,389	6,522
Actuarial (gains) losses	(701)	4,100
Benefit payments	(6,587)	(6,862)
Currency translation	(5,996)	(3,724)
Benefit obligation at end of year	<u>97,449</u>	<u>101,256</u>
Market value of plan assets at beginning of year	94,101	88,257
Actual return on plan assets	(484)	8,965
Employer contributions	5,855	7,157
Plan participants contributions	158	166
Benefit payments	(6,587)	(7,065)
Currency translation	(5,489)	(3,379)
Market value of plan assets at end of year	<u>87,554</u>	<u>94,101</u>
Funded status at end of year	(9,895)	(7,155)
Items not recognized in earnings		
Unrecognized actuarial losses	9,661	2,790
Deferred pension liability	<u>\$ (234)</u>	<u>\$ (4,365)</u>

Amounts applicable to the company's pension plans with an accumulated benefit obligation in excess of plan assets are:

	2001	2000
Projected benefit obligation	\$ <u>67,721</u>	\$ <u>65,417</u>
Accumulated benefit obligation	\$ <u>65,961</u>	\$ <u>64,066</u>
Market value of plan assets	\$ <u>59,012</u>	\$ <u>56,839</u>

The significant actuarial assumptions adopted in measuring the company's accrued benefit obligations as at December 31 follow. Variances between such estimates and actual experience, which may be material, are amortized over the employees average remaining service life.

	2001	2000
Weighted average discount rate	6.6%	6.6%
Expected long-term rate of return on plan assets	8.0%	8.0%
Weighted average rate of compensation increase	3.7%	3.7%



## 10. Preferred Shares

### a) Authorized

The company is authorized to issue unlimited first and second preferred shares. The first preferred shares rank in priority to the second preferred shares and the common shares as to payment of dividends and the distribution of assets. The first and second preferred shares may be issued in series and the directors of the company may fix, before issuance, the further rights, privileges, restrictions and conditions attached thereto.

The company has issued first preferred shares, series 1 (the Series 1 Preferred Shares) at a price of CDN \$25.00 per Series 1 Preferred Share with a fixed cumulative preferential dividend as and when declared by the directors equal to 5.50% per annum payable quarterly on the 15th of February, May, August and November of each year.

The Series 1 Preferred Shares are non-voting. However, if the company fails to declare and pay eight quarterly dividends, consecutive or otherwise, and so long as any of those dividends are in arrears, the Series 1 Preferred Shares become voting.

The Series 1 Preferred Shares may be redeemed in whole or in part by the company at any time on or after 15 May 2004 for CDN \$25.00 per share plus accrued and unpaid dividends. On or after 15 May 2004, the company may elect to convert each Series 1 Preferred Share into that number of common shares determined by dividing CDN \$25.00 plus accrued and unpaid dividends by the greater of CDN \$3.00 and 95 percent of the market price of the common shares. In addition, on or after 15 August 2004, the holders have the option to convert each Series 1 Preferred Share into that number of common shares determined by dividing CDN \$25.00 plus accrued and unpaid dividends by the greater of CDN \$3.00 and 95 percent of the market price of the common shares subject to the company's right to redeem the Series 1 Preferred Shares, arrange sales to substitute purchasers or a combination thereof.

Unless all dividends are paid to the most recent dividend date, the company may not 1) pay cash dividends on shares ranking junior to the Series 1 Preferred Shares; 2) redeem, purchase or otherwise retire shares ranking on parity with or junior to the Series 1 Preferred Shares; or 3) redeem, purchase or otherwise retire less than all of the Series 1 Preferred Shares.

The Series 1 Preferred Shares, including accrued and unpaid cumulative dividends, have been classified as equity since the company has the unrestricted ability to settle the Series 1 Preferred Shares and related dividends by issuing its own common shares.

### b) Issued

The Series 1 Preferred Shares amount at 31 December is comprised of:

	2001		2000	
	Number	Amount	Number	Amount
Issued for cash	6,000,000	\$ 97,829	6,000,000	\$ 97,829
Accrued dividends	-	716	-	743
Balance at end of year	<u>6,000,000</u>	<u>\$ 98,545</u>	<u>6,000,000</u>	<u>\$ 98,572</u>

## 11. Common Shares

### a) Authorized

The company is authorized to issue unlimited common shares.

### b) Issued

Following is the continuity of common shares outstanding:

	2001		2000		1999	
	Number	Amount	Number	Amount	Number	Amount
Balance at beginning of year	40,812,936	\$ 255,772	40,796,436	\$ 255,657	40,703,436	\$ 254,506
Exercise of share options	30,600	391	16,500	115	93,000	1,151
Balance at end of year	<u>40,843,536</u>	<u>\$ 256,163</u>	<u>40,812,936</u>	<u>\$ 255,772</u>	<u>40,796,436</u>	<u>\$ 255,657</u>

### c) Share Option Plan

The company has a share option plan under which common shares are reserved for directors, officers and employees. These options, which are exercisable within ten years, are to be granted at a price established by the Board of not less than the last Toronto Stock Exchange board lot trading price prior to the day of the grant. The options vest over one to three years. Outstanding options at 31 December 2001 expire between 2 May 2002 and 1 October 2011.

Following is the continuity of granted options outstanding in Canadian dollars:

	2001		2000		1999	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Balance at beginning of year	3,085,959	\$ 22.70	2,471,325	\$ 24.39	2,148,750	\$ 23.10
Options granted	284,885	20.00	654,760	16.13	443,625	29.47
	<u>3,370,844</u>	<u>22.48</u>	<u>3,126,085</u>	<u>22.66</u>	<u>2,592,375</u>	<u>24.19</u>
Options exercised	(30,600)	19.71	(16,500)	10.33	(93,000)	18.27
Options cancelled	(28,289)	26.76	(23,626)	25.14	(28,050)	26.83
Balance at end of year	<u>3,311,955</u>	<u>22.47</u>	<u>3,085,959</u>	<u>22.70</u>	<u>2,471,325</u>	<u>24.39</u>

Following is the continuity of unissued options reserved under the plan:

	2001	2000	1999
Balance at beginning of year	203,154	834,288	249,863
Options approved	750,000	—	1,000,000
Options granted	(284,885)	(654,760)	(443,625)
Options cancelled	28,289	23,626	28,050
Balance at end of year	<u>696,558</u>	<u>203,154</u>	<u>834,288</u>

Following is the range of exercise prices and contractual life of outstanding options under the plan in Canadian dollars as at 31 December 2001:

	Number	Weighted Average Exercise Price	Weighted Average Contractual Life
Balance of options outstanding at year end within the following ranges:			
\$10.00 to \$19.99	1,677,630	\$ 16.35	4.2
\$20.00 to \$29.99	777,200	21.40	4.7
\$30.00 to \$50.00	857,125	35.39	6.0
	<u>3,311,955</u>	<u>22.47</u>	<u>4.8</u>

Following is the range of exercise prices of options currently exercisable under the plan in Canadian dollars as at 31 December 2001:

	Number	Weighted Average Exercise Price
Balance of options exercisable at year end within the following ranges:		
\$10.00 to \$19.99	1,348,911	\$ 15.54
\$20.00 to \$29.99	759,032	21.37
\$30.00 to \$50.00	825,700	35.27
	<u>2,933,643</u>	<u>22.60</u>

## 12. Subordinated Notes

During 2000 and 1999, respectively, the company issued \$90,000 and \$10,000 incremental rate junior subordinated notes maturing 31 December 2038. The incremental rate junior subordinated notes bear interest in arrears payable semi-annually at 8.5% for the ten year period ending 10 December 2008, 9.5% for the eleventh to fifteenth year and increasing by an additional 2% every five years thereafter. The incremental rate junior subordinated notes are redeemable, in whole or in part, by the company, at any time, at the principal amount plus accrued and unpaid interest to the date of redemption (hereafter referred to as the Redemption Amount) and at maturity at the principal amount plus accrued and unpaid interest to the date of maturity (hereafter referred to as the Maturity Amount).

The company may, at its option, pay the Redemption Amount, Maturity Amount or any interest payment in cash or by delivering common shares to a trustee. The trustee would sell the company's common shares and remit the proceeds to the holders of the incremental rate junior subordinated notes in payment of the Redemption Amount, the Maturity Amount or the accrued interest.

The company may, at its option, defer payment of interest on the incremental rate junior subordinated notes by extending the interest payment date for up to four consecutive semi-annual periods. Interest continues to accrue during the extension periods, but does not compound. An interest deferral can only commence if there have been no dividends paid on common or preferred shares during the preceding six months. Should the company pay any dividends on common or preferred shares during the interest deferral period, the deferral period ceases and the payment of deferred interest is required.



The principal amount of the incremental rate junior subordinated notes is classified as equity and accrued interest, on an after tax basis, is classified as a charge to retained earnings since the company has the ability to settle the amounts by issuing its own common shares. In 2000, the related issue expenses of \$176, \$120 net of income taxes, (1999 - \$20, \$13 net of income taxes) were charged to retained earnings.

### 13. Dividends

The most restrictive covenant pertaining to dividend payments in the company's financing agreements requires consolidated shareholders' equity, excluding the balance of outstanding subordinated notes, to be maintained at a minimum of \$570,000 plus 50% of net income earned after 31 December 1998. At 31 December 2001, the company's shareholders' equity exceeded this requirement by \$225.046.

Dividends on common shares totalled CDN \$0.425 per share (2000 and 1999 - CDN \$0.50 per share).

### 14. Earnings Per Share

Basic earnings per share is calculated by dividing net income available to common shareholders by the weighted average number of common shares outstanding. Diluted earnings per share is calculated by dividing net income by the actual shares outstanding and share equivalents that would arise from the exercise of share options and deferred share units, and the conversion of preferred shares and subordinated notes. Out-of-the-money share options, those with an exercise price greater than market price, are excluded from the calculation as they are anti-dilutive. The per share amounts disclosed on the Consolidated Statements of Income and Retained Earnings are based on the following:

	2001	2000	1999
Numerator for basic earnings per share –			
Net income available to common shareholders	\$ 27,405	\$ 46,848	\$ 68,254
Dividends on preferred shares including part V.I.I tax	5,692	5,935	5,895
Interest on subordinated notes net of income tax	5,771	4,890	133
Numerator for diluted earnings per share –			
Net income	\$ 38,868	\$ 57,673	\$ 74,282
Common shares outstanding – 01 January	40,812,936	40,796,436	40,703,436
Additional shares issued	19,282	9,183	33,749
Denominator for basic earnings per share	40,832,218	40,805,619	40,737,185
Adjustment for share options	231,360	145,195	617,278
Adjustment for deferred share units	29,435	7,449	–
Adjustment for preferred shares	8,841,623	12,600,969	5,611,211
Adjustment for subordinated notes	8,971,601	9,796,926	129,302
Denominator for diluted earnings per share	\$ 58,906,237	\$ 63,356,158	\$ 47,094,976

**15. Cash Derived from (Applied to) Operating Activities**

	2001	2000	1999
Working capital provided by operations			
Net income	\$ 38,868	\$ 57,673	\$ 74,282
Non-cash portion of litigation settlement	(11,000)	-	-
Non-cash provision for loss on assets held for sale or redeployment	10,000	-	-
Amortization of capital assets	37,107	35,257	29,670
Amortization of deferred charges	549	544	499
Deferred pension expense	(3,958)	(6,201)	(2,813)
Other	(144)	(48)	-
Income taxes allocated to future years	(13,656)	4,941	(19,904)
	<u>\$ 57,766</u>	<u>\$ 92,166</u>	<u>\$ 81,734</u>
Change in non-cash operating working capital			
Trade receivables	\$ 28,642	\$ (24,069)	\$ (21,010)
Other receivables	21,099	(22,034)	17,081
Inventories	(13,436)	(13,576)	(47,825)
Prepaid expenses	600	127	(961)
Accounts payable and accrued charges	6,916	(5,795)	16,166
Accrued payroll and related liabilities	(1,523)	(1,492)	(237)
Income and other taxes payable	4,841	(4,851)	7,220
Other current liabilities	3,418	2,278	3,345
	<u>\$ 50,557</u>	<u>\$ (69,412)</u>	<u>\$ (26,221)</u>

**16. Expenditures for Capital Assets**

	2001	2000	1999
Additions to capital assets	\$ 155,007	\$ 374,473	\$ 134,333
Decrease (increase) in accounts payable and accrued charges for capital expenditures	768	(6,283)	(15,593)
	<u>\$ 155,775</u>	<u>\$ 368,190</u>	<u>\$ 118,740</u>

**17. Investment in Partnership**

A partnership formed between the company and Jamel Metals Ltd. (Jamel), formerly General Scrap & Car Shredder Ltd. (General Scrap), purchased the Canadian scrap metal operations of General Scrap and the shares of Sametco Auto Inc., an automotive parts operation, effective 01 April 1997 for approximately \$24,131, including the assumption of debt. IPSCO's interest in the capital of the partnership is 91% (2000 - 81%) and will increase to 100% in 2002. The company contributed \$1,993 (2000 - \$2,075) in exchange for an additional 10% interest. The company is committed to acquire the remaining 9% for \$1,708 of cash in 2002.

**18. Segmented Information**

The company is organized and managed as a single business segment, being steel products, and the company is viewed as a single operating segment by the chief operating decision maker for the purposes of resource allocation and assessing performance.

Financial information on the company's geographic areas follows. Sales are allocated to the country in which the third party customer receives the product.

	2001	2000	1999
Sales			
Canada	\$ 395,841	\$ 463,860	\$ 498,472
United States	507,902	485,403	309,779
	<u>\$ 903,743</u>	<u>\$ 949,263</u>	<u>\$ 808,251</u>
Capital Assets			
Canada	\$ 203,292	\$ 230,057	
United States	960,511	851,492	
	<u>\$ 1,163,803</u>	<u>\$ 1,081,549</u>	

Sales information by product group is as follows:

	2001	2000	1999
Steel mill products	\$ 288,082	\$ 325,658	\$ 230,167
Further fabricated products	615,661	623,605	578,084
	<u>\$ 903,743</u>	<u>\$ 949,263</u>	<u>\$ 808,251</u>

## 19. Commitments

- a) The company and its subsidiaries have lease commitments on property for the period to 2015. The payments required by these leases, including the sale-leaseback transactions discussed below, are as follows:

2002	\$ 22,348
2003	28,488
2004	23,700
2005	17,744
2006	16,434
	<u>108,714</u>
2007 - 2015	143,339
	<u>\$ 252,053</u>

Rental expenses incurred under operating leases during 2001, 2000 and 1999 were \$26,858, \$10,839 and \$4,259 respectively.

In 2001, the company concluded a sale and leaseback of the temper mill at its coil processing facility in Houston for cash proceeds of \$15,000. The sale resulted in no gain or loss. The company has the option, but not the obligation, to purchase the equipment for a predetermined amount after seven years of the 7.5 year lease term.

In October 2000, the company concluded the sale and leaseback of certain of its Montpelier Steelworks production equipment for cash proceeds of \$150,000. The company has options, but is not obligated, to purchase the equipment after seven and ten years for predetermined amounts and at the end of the lease term for the fair market value of the equipment.

In December 2000, the company concluded a sale and leaseback of the temper mill at its coil processing facility in St. Paul for cash proceeds of \$8,251. The company has the option, but not the obligation, to purchase the equipment for a predetermined amount after four years of the five year lease term.



- b) The company and its subsidiaries have commitments under service and supply contracts for the period to 2016. Payments required under these contracts are as follows:

2002	\$ 36,738
2003	37,817
2004	34,589
2005	33,959
2006	29,098
	<u>172,201</u>
2007 - 2016	125,574
	<u>\$ 297,775</u>

- c) At 31 December 2001, commitments to complete capital programs in progress total \$4,738.

## 20. Supplemental Information

	2001	2000	1999
Allowance for doubtful accounts	\$ 5,326	\$ 1,122	\$ 1,294
Doubtful accounts charged to expense	\$ 4,435	\$ 11	\$ 420
Interest income	\$ 1,561	\$ 4,866	\$ 7,296
Other interest expense	\$ 633	\$ 4,066	\$ 808
Miscellaneous income	\$ 1,477	\$ 2,022	\$ 2,272
Research and development expense	\$ 1,306	\$ 5,507	\$ 718
Net foreign exchange (loss) gain	\$ (882)	\$ (365)	\$ 1,300
Interest paid	\$ 25,466	\$ 25,219	\$ 22,032
Income tax instalments paid	\$ 26,304	\$ 60,402	\$ 31,943

## 21. Significant Differences Between Canadian and United States Generally Accepted Accounting Principles (GAAP)

- a) Reconciliation of net income (loss) between accounting principles generally accepted in Canada and the United States:

	2001	2000	1999
Net income as reported under Canadian GAAP	\$ 38,868	\$ 57,673	\$ 74,282
Adjustments relating to the capitalization of interest (i)	(8,908)	(758)	(284)
Adjustments relating to commissioning costs (ii)	(22,776)	(16,356)	(5,673)
Adjustments relating to amortization of capital assets (iii)	(4,126)	998	847
Adjustments relating to subordinated notes (iv)	(5,771)	(4,890)	(133)
Adjustments relating to sale-leaseback (v)	(1,014)	(709)	-
Adjustments relating to change in accounting principles (vi)	-	(8,977)	-
Adjustments relating to natural gas hedge (vii)	(8)	-	-
Adjustments relating to valuation allowance on net income tax asset allocated to future years (viii)	(37,200)	-	-
Net income (loss) in accordance with U.S. GAAP	(40,935)	26,981	69,039
Dividends on preferred shares including part VII tax	(5,692)	(5,935)	(5,895)
Net income (loss) available to common shareholders in accordance with U.S. GAAP	<u>\$ (46,627)</u>	<u>\$ 21,046</u>	<u>\$ 63,144</u>
Earnings (loss) per common share:			
United States			
Basic	\$ (1.14)	\$ 0.52	\$ 1.55
Diluted (ix)	<u>\$ (1.14)</u>	<u>\$ 0.50</u>	<u>\$ 1.45</u>

- i) United States GAAP requires interest to be capitalized on the expenditures incurred for all major projects under construction to a maximum of all interest costs during the year or until the assets are placed into production. Commissioning and start-up costs are not included in the calculation of interest to be capitalized. For Canadian GAAP, commissioning and start-up costs are included in the calculation.
- ii) United States GAAP requires commissioning or start-up costs to be expensed as incurred. For Canadian GAAP, these costs are capitalized.
- iii) United States GAAP requires amortization of capital assets to commence when the capital assets are available for use. Under Canadian GAAP, amortization commences when the assets are placed into production which occurs at the end of the commissioning or start-up period. Further, the amount capitalized to capital assets under United States GAAP differs from the amount capitalized under Canadian GAAP (see i and ii above).
- iv) United States GAAP requires that the subordinated notes be classified as long-term debt, the related accrued interest to be classified as a liability, the related issue costs to be recorded as an asset which is amortized to interest expense over the term of the debt, the related pre-tax interest to be deducted in determining income and the related income tax benefit to be recorded as part of income tax expense. Under Canadian GAAP, as disclosed in Note 12, the company has classified the subordinated notes as part of shareholders' equity and the interest, net of related tax effects, and the issue costs have been classified as charges to retained earnings.
- v) United States GAAP requires the financing method of accounting for the Montpelier Steelworks sale-leaseback transaction. Under Canadian GAAP, the transaction has been afforded operating lease treatment. U.S. GAAP gives rise to interest expense on the obligation and amortization of the capital asset. Under Canadian GAAP, a lease expense is incurred.

- vi) United States GAAP requires the cumulative effect of adoption of changes in accounting principles to be recorded, net of income taxes, as a charge to income. For Canadian GAAP, the cumulative effect is charged directly to retained earnings. In 2000, prior to the cumulative effect of the change in accounting principle, basic earnings per share were \$0.74 and diluted earnings per share were \$0.64.
- vii) United States GAAP requires recording of the ineffective portion of cash flow hedges in the income statement including the mark-to-market adjustment of the natural gas contract and the amortization of the effective portion (prior to the counter party bankruptcy) of the natural gas hedge over the remaining life of the contract. Amortization of \$425 after tax will be recorded in 2002. Canadian GAAP allows for probable hedged transactions to be accounted for off-balance sheet.
- viii) Represents additional valuation allowance provided on the net tax asset allocated to future years for United States GAAP as a result of differences in accounting practices between United States and Canadian GAAP. See i), ii), and iii) above for explanation of the principal differences.
- ix) Due to the net loss in 2001, no adjustment was made for potentially dilutive instruments as the impact would be antidilutive.
- b) Comprehensive income:

	2001	2000	1999
Net income (loss) in accordance with U.S. GAAP	\$ (40,935)	\$ 26,981	\$ 69,039
Other comprehensive income, net of tax			
Foreign currency translation adjustments	(15,686)	(13,668)	23,175
Adjustments relating to minimum pension liability	(2,420)	2,152	4,380
Mark to market adjustment for natural gas hedge	(1,274)	—	—
Amortization of natural gas hedge to income	71	—	—
	(19,309)	(11,516)	27,555
Comprehensive income (loss) in accordance with U.S. GAAP	\$ (60,244)	\$ 15,465	\$ 96,594

- c) Reconciliation of the statement of financial position between accounting principles generally accepted in Canada and the United States:

	2001	2000
i) Capital assets		
Balance under Canadian GAAP	\$ 1,163,803	\$ 1,081,549
Adjustments relating to the capitalization of interest	(13,902)	282
Adjustments relating to commissioning costs	(112,233)	(75,965)
Adjustments relating to amortization of capital assets	(5,690)	880
Adjustments relating to sale-leaseback	142,269	145,395
Balance under U.S. GAAP	\$ 1,174,247	\$ 1,152,141
ii) Deferred pension liability		
Balance under Canadian GAAP	\$ 234	\$ 4,365
Adjustments relating to minimum pension liability	6,715	2,862
Balance under U.S. GAAP	\$ 6,949	\$ 7,227



iii) Income taxes allocated to future years		
Net future tax asset balance under Canadian GAAP	\$ (27,945)	\$ (17,633)
Adjustments relating to the capitalization of interest	(5,172)	105
Adjustments relating to commissioning costs	(41,751)	(28,259)
Adjustments relating to amortization of capital assets	(2,117)	327
Adjustments relating to minimum pension liability	(2,498)	(1,065)
Adjustments relating to sale-leaseback	(1,020)	(420)
Adjustments relating to natural gas contract	(681)	—
Adjustments relating to valuation allowance on net income tax asset allocated to future years	37,200	—
Net future tax asset balance under U.S. GAAP	<u>\$ (43,984)</u>	<u>\$ (46,945)</u>
iv) Accounts payable and accrued charges		
Balance under Canadian GAAP	\$ 129,366	\$ 133,799
Adjustments relating to subordinated notes	4,250	4,250
Adjustments relating to sale-leaseback	1,417	(621)
Adjustments relating to natural gas contract	1,892	—
Balance under U.S. GAAP	<u>\$ 136,925</u>	<u>\$ 137,428</u>
v) Long-term debt		
Balance under Canadian GAAP	\$ 386,809	\$ 343,822
Adjustments relating to subordinated notes	100,000	100,000
Adjustments relating to sale-leaseback	143,595	150,000
Balance under U.S. GAAP	<u>\$ 630,404</u>	<u>\$ 593,822</u>
vi) Shareholders' equity		
Balance under Canadian GAAP	\$ 985,538	\$ 984,634
Adjustments relating to the capitalization of interest	(8,730)	177
Adjustments relating to commissioning costs	(70,482)	(47,706)
Adjustments relating to amortization of capital assets	(3,573)	553
Adjustments relating to minimum pension liability	(4,217)	(1,797)
Adjustments relating to subordinated notes	(104,250)	(104,250)
Adjustments relating to sale-leaseback	(1,723)	(709)
Adjustments relating to natural gas hedge	(1,211)	—
Adjustments relating to valuation allowance on net income tax asset allocated to future years	(37,200)	—
Balance under U.S. GAAP	<u>\$ 754,152</u>	<u>\$ 830,902</u>

In accordance with FASB Statement No. 87, the company has recorded an additional minimum pension liability for underfunded plans representing the excess of unfunded accumulated benefit obligations over previously recorded pension cost liabilities. A corresponding amount is recognized as a deferred charge except to the extent that these additional liabilities exceed the related unrecognized prior service cost and net transition obligation, in which case the increase in liabilities is charged directly to shareholders' equity, net of related deferred income taxes.

- d) United States GAAP defines cash position to be cash and cash equivalents. Under Canadian GAAP, cash position, in certain circumstances, can be defined as cash and cash equivalents less bank indebtedness. This difference and the above U.S. GAAP adjustments result in the following restatements of the company's statement of cash flows.

	2001	2000	1999
Cash derived from (applied to) operating activities	\$ 58,260	\$ (4,498)	\$ 46,028
Cash derived from financing activities	\$ 72,275	\$ 265,291	\$ 27,391
Cash applied to investing activities	\$ (107,705)	\$ (343,013)	\$ (111,250)
Effect of exchange rate changes on cash and cash equivalents	\$ (3,489)	\$ (3,560)	\$ 8,491
Cash position at 31 December	\$ 37,492	\$ 18,151	\$ 103,931

- e) Additional disclosure required under U.S. GAAP:

- i) The company has elected to follow Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees ("APB 25"), in accounting for its employee stock options under accounting principles generally accepted in the United States. Under APB 25, because the exercise price of the company's employee stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recognized. This is in conformity with Canadian GAAP. However, FASB Statement No. 123 requires the disclosure of pro forma information regarding net income and earnings per share using option valuation models that calculate the fair value of employee stock options granted.

The fair value for the stock options was estimated at the date of grant using a Black-Scholes option pricing model using the following weighted-average assumptions for 2001, 2000 and 1999 respectively: risk-free interest rates of 4.8%, 5.8% and 5.3%; dividend yields of 2.5%, 3.1% and 1.7%; volatility factors of the expected market price of the company's common stock of .40, .35 and .35; and a weighted-average expected life of the options of 1.2 years. The weighted-average grant-date fair value of the options granted during 2001 was \$3.33 (2000 - \$2.70, 1999 - \$4.82).

The Black-Scholes option valuation model was developed for use in estimating fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

For purposes of pro forma disclosures, the estimated fair value of the options is amortized over the options vesting period. The company's pro forma information follows:

	2001	2000	1999
Pro forma net income (loss)	\$ (42,412)	\$ 25,028	\$ 66,773
Pro forma net income (loss) available to common shareholders	\$ (48,104)	\$ 19,093	\$ 60,878
Pro forma earnings per common share:			
Basic	\$ (1.18)	\$ 0.47	\$ 1.49
Diluted	\$ (1.18)	\$ 0.47	\$ 1.42



- ii) The total interest paid, including interest on the subordinated notes, was \$41,961, \$28,380 and \$22,032 in 2001, 2000 and 1999 respectively.

The total fair market value of the company's long-term debt, including the subordinated notes, was \$659,349 (2000 - \$591,385) and the current portion was \$33,795 (2000 - \$27,452).

- iii) The company's natural gas swap contract was designated as a hedge against volatility in the price of natural gas purchased for consumption in the steel production process. The bankruptcy of the counter party's parent company, as guarantor of the contract, has caused the contract to be deemed ineffective. As a result, the unrealized liability recorded in other comprehensive income at the time of the bankruptcy will be amortized to income over the remaining life of the contract. The fair value of the contract liability will be marked-to-market each reporting period with the change being recorded to income in the period.
- iv) Under Staff Accounting Bulletin 74, the company is required to disclose certain information related to new accounting standards which have not yet been adopted due to delayed effective dates.

In June 2001, the Financial Accounting Standards Board (FASB) issued Statements of Financial Accounting Standards (SFAS) No. 141, Business Combinations, and No. 142, Goodwill and Other Intangibles, effective for fiscal years beginning after 15 December 2001. Under the new rules, business acquisitions must be accounted for using the purchase method and goodwill will no longer be amortized, but will be subjected to annual impairment tests. Other intangible assets will continue to be amortized over their useful lives. Application of the non-amortization provision and the annual impairment test of goodwill are not expected to have a significant impact on income or financial position.

In June 2001, the FASB issued SFAS No. 143, Accounting for Asset Retirement Obligations, which addresses the accounting for tangible long-lived asset retirements and their associated costs. SFAS No. 143 is effective for 2003, and will require a liability for the retirement of long-lived assets be recorded when incurred and amortized over its remaining life. The company has not yet assessed the impact of SFAS No. 143, but its adoption could have a significant impact on the company's financial position.

In August 2001, the FASB issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, which is effective for 2002. SFAS No. 144 addresses issues surrounding the accounting for and reporting of impairment and/or disposal plans for long-lived assets. The company does not expect the adoption of this statement will have a significant impact on the company's financial statements.

## 22. Contingencies and Environmental Expenditures

The major raw material used in the steelmaking process is reclaimed iron and steel scrap. This recycling has made a significant contribution to protecting the environment. As an ongoing commitment to the environment, the company continues to monitor emissions, perform site clean-up, and invest in new equipment and processes. Nevertheless, rapidly changing environmental legislation and regulatory practices are likely to require future expenditures to modify operations, install pollution control equipment, dispose of waste products, and perform site clean-up and site management. The magnitude of future expenditures cannot be determined at this time. However, management is of the opinion that under existing legislation and regulatory practices, expenditures required for environmental compliance will not have a material adverse effect on the company's financial position. Environmental expenditures that relate to ongoing environmental and reclamation programs are charged against earnings as incurred or capitalized and amortized depending on the future economic benefits.

The company settled the litigation with the turnkey contractors of the Montpelier Steelworks on 27 April 2001 for cash of \$28,000 and retainage of construction holdbacks of \$21,000. As a result of the settlement, the company recorded income of \$39,000 representing claims for lost business and reimbursement of legal costs and approximately \$10,000 was recorded to cover the necessary cost of capital asset improvements to bring the Montpelier Steelworks to original contract specifications.



**For further information regarding the Company contact:**

Anne Parker

*Vice President, Trade Policy and Communications*

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## **IPSCO Inc.**

(A Canadian Corporation)

### **LEGAL HEAD OFFICE**

P.O. Box 1670

Regina, Saskatchewan S4P 3C7

### **OPERATIONAL HEAD OFFICE**

650 Warrenville Road, Suite 500

Lisle, Illinois 60532

### **WORKS**

Regina, Saskatchewan, P.O. Box 1670

Calgary, Alberta, 7201 Ogdendale Rd. S.E.

Montpelier, Iowa, 1770 Bill Sharp Boulevard

Camanche, Iowa, 2011 - 7th Ave.

St. Paul, Minnesota, 2500 W. County Road B

Houston, Texas, Greens Port Industrial Park,  
13609 Industrial Road

Red Deer, Alberta, Central Park Road

Geneva, Nebraska, 1201 R Street

Surrey, British Columbia, 8250 - 130th St.

Toronto, Ontario, 1051 Tapscott Road

Blytheville, Arkansas, 5460 N. State Hwy 137

Mobile, Alabama, 12400 Highway 43 N., Axis, Alabama

### **PRINCIPAL SUBSIDIARIES**

(100% owned unless otherwise noted)

IPSCO Saskatchewan Inc.

(A Canadian Corporation)

IPSCO Ontario Inc.

(A Canadian Corporation)

IPSCO Steel Inc.

(A Delaware Corporation)

IPSCO Enterprises Inc.

(A Delaware Corporation)

IPSCO Tubulars Inc.

(A Delaware Corporation)

IPSCO Minnesota Inc.

(A Delaware Corporation)

IPSCO Texas Inc.

(A Delaware Corporation)

IPSCO Steel (Alabama) Inc.

(An Alabama Corporation)

General Scrap Partnership

(91% owner as at 31 December 2001)

*On peut obtenir la version française de ce  
rapport sur demande écrite adressée à:*

IPSCO Inc. Communications

C.P. 1670, Regina (Saskatchewan) S4P 3C7



# IPSCO Locations

